



Bonterra Oil & Gas Ltd.

Bonterra Oil & Gas Ltd. is a high-yield, dividend paying oil and gas company headquartered in Calgary, Alberta with a proven history of growth and long-term returns for investors. It recently converted to a corporation from an income trust and intends to continue with a cash dividend policy similar to the distribution policy previously followed by the Trust. The monthly dividend amount will continue to be determined by commodity prices and production volumes.

Bonterra's asset base consists of stable, producing properties located mainly in the Pembina field in central Alberta and are characterized by a long reserve life and low risk, predictable returns. Bonterra's proven track record of success is due to its experienced management team, conservative capital structure and sustainable pace of development, resulting in above-average results and returns for investors.

Bonterra's common shares trade on the Toronto Stock Exchange under the symbol BNE.

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held on Thursday, May 21, 2009, in the Marquis Room at the Fairmont Palliser, 133 Ninth Avenue SW, Calgary, Alberta at 11:00 AM (Mountain Time).

Experience.

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Annual Highlights

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	2008	2007	2006
Financial (\$000, except \$ per share/unit)			
Revenue – realized oil and gas	121,730	96,431	88,734
Cash payments per share/unit (1)	3.12	2.64	2.82
Cash flow from operations	69,570	51,433	51,944
Per Share/Unit Basic	4.07	3.04	3.10
Per Share/Unit Fully Diluted	4.06	3.04	3.08
Payout Ratio (1)	77%	87%	91%
Net Earnings	55,426	30,350	37,250
Per Share/Unit Basic	3.25	1.79	2.23
Per Share/Unit Fully Diluted	3.23	1.79	2.21
Capital Expenditures and Acquisitions	45,407	19,300	38,348
Working Capital Deficiency	23,878	58,766	50,187
Long-term Debt	79,910	-	-
Shareholders'/Unitholders' Equity	56,777	44,376	53,359
Shares / Units Outstanding	17,258	16,928	16,875
Operations			
Oil and Liquids (barrels per day)	3,073	3,113	3,040
Average Price (\$ per barrel)	87.54	70.31	64.69
Natural Gas (MCF per day)	7,637	6,627	6,014
Average Price (\$ per MCF)	8.21	6.75	7.55
Total BOE per day (2)	4,346	4,218	4,042
Reserves			
Oil and Liquids (barrels in 000s)			
Proved Developed Producing (Gross) (3)	15,534	14,468	13,688
Proved (Gross)	17,991	17,472	16,758
Proved plus Probable (Gross)	22,867	21,910	21,526
Natural Gas (MCF in 000s)			
Proved Developed Producing (Gross)	32,108	19,863	17,011
. Proved (Gross)	36,571	24,125	22,562
Proved plus Probable (Gross)	50,245	32,465	29,700
Reserve Life Index (4) (oil, liquids and natural gas at 6:1) (years)			
Proved Developed Producing (Gross)	12.5	11.3	11.0
Proved (Gross)	14.4	13.7	13.6
Proved plus Probable (Gross)	18.7	17.4	17.6
Reserves per Weighted Average Outstanding Share / Unit (BOE)			
Proved Developed Producing (Gross)	1.22	1.05	0.98
Proved (Gross)	1.41	1.27	1.22
Proved plus Probable (Gross)	1.83	1.62	1.57

Quarterly Highlights

2008	4th	3rd	2nd	1st
Financial (\$000, except \$ per share/unit)				
Revenue – realized oil and gas sales	22,613	34,226	34,398	30,493
Cash flow from operations	10,336	22,492	20,530	16,212
Per Share/Unit Basic	0.59	1.31	1.21	0.96
Per Share/Unit Fully Diluted	0.59	1.30	1.20	0.96
Cash payments per share/unit (1)	0.62	0.96	0.84	0.70
Payout Ratio (1)	105%	73%	69%	73%
Net Earnings	10,585	21,125	12,912	10,804
Per Share/Unit Basic	0.62	1.23	0.76	0.64
Per Share/Unit Fully Diluted	0.62	1.22	0.75	0.64
Capital Expenditures and Acquisitions	30,405	6,038	2,543	6,421
Total Assets	265,301	150,120	153,247	150,169
Working Capital Deficiency	23,878	47,499	57,148	57,810
Long-term debt	79,910	-	~	-
Shareholders'/Unitholders' Equity	56,777	57,623	46,612	48,136
Operations				
Oil and Liquids (barrels per day)	3,105	3,013	3,024	3,153
Natural Gas (MCF per day)	8,892	7,233	7,272	7,139
Total BOE per day	4,587	4,219	4,236	4,343

- (1) Cash payments per share/unit are based on payments made in respect of production months within the quarter.
- (2) Barrels of oil equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.
- (3) Gross reserves relate to the Company's ownership of reserves before deducting any royalties.
- (4) The reserve life index is calculated by dividing the reserves (BOE) by the annualized fourth quarter average production rate (2008 4,587 BOE per day; 2007 4,295 BOE per day; 2006 4,119).

Report to Shareholders

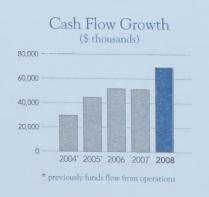
Bonterra Oil & Gas Ltd. ("Bonterra" or the "Company") is pleased to report its operational, financial and reorganization results for the year ending December 31, 2008. In assessing the year, the Company realized many positive events and results and a few negative results that developed during the last four months of the year. These are generally attributable to severe changes in the world economy; events that cannot be influenced by individual companies.

Highlights

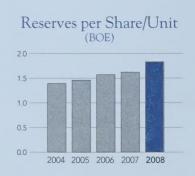
- Net earnings increased substantially to \$55.4 million or \$3.25 per share as compared to \$30.4 million or \$1.79 per unit in 2007;
- Cash flow from operations totaled \$69.6 million (\$4.07 per share) in 2008, an increase of 35 percent year over year;
- Cash payment per share/unit to investors totaled \$3.12, a substantial increase from the 2007 level of \$2.64;
- The payout ratio of cash flow was 77 percent, within the Company's annual target of 75 to 80 percent and a decrease from the 2007 level of 87 percent;
- Production increased to an all time high of 4,346 barrels of oil equivalent (BOE) per day as a result of the Company's internal development program and an acquisition during the year. Fourth quarter production totaled 4,587 BOE per day, an increase of nine percent over the same period last year and the 2008 exit rate was 4,950 BOE per day;
- Reserves increased to 24.1 million BOE and 31.2 million BOE on a proved and a proved plus probable (P+P) basis, respectively. This represents an increase of 12.1 percent to the Company's proved reserves and a 14.4 percent increase to proved plus probable reserves;
- Reserves per share on a P+P basis increased 13.0 percent to 1.83 BOE per share;
- Bonterra's finding and development costs (F&D costs) including acquisitions in 2008 continue to be among the lowest in the Canadian oil and gas industry. F&D three-year average costs were \$12.30 per boe on a proved basis and \$9.45 per BOE on a P+P basis compared with the previous three year average (2005-2007) of \$14.37 per boe on a proved basis and \$11.07 per boe on a P+P basis.

New Corporate Structure

Bonterra's most notable achievement during the year was the successful conversion to a corporation from an income trust in November, 2008. The conversion provides investors with enhanced certainty in regard to Bonterra's ability to remain a high-income generating investment while negating the overhang associated with the Canadian federal government's legislation to tax trusts beginning in 2011.







* previously funds flow from operations

Select benefits of the new corporate structure include:

- The ability to continue to provide income oriented investors with a substantial cash yield. Bonterra intends to continue with a cash dividend policy similar to that followed by the Trust;
- Substantial tax pools of approximately \$465 million which will currently allow Bonterra to extend its taxable horizon beyond 2018, subject to commodity prices;
- Higher after-tax earnings for investors as dividends are taxed at lower rates than distributions;
- Removal of the growth limitations which currently exists under the "normal growth" guidelines; and
- The flexibility to increase capital investment over the next several years with a view to providing enhanced returns to investors.

Maximizing Investor Returns in an Uncertain Environment

As a corporation, Bonterra is well-positioned to be valued as a growth-oriented, high-dividend paying corporation with a proven history of growth and long-term returns for investors.

It is a long-term focus that has defined Bonterra's ongoing business strategy. Bonterra has continued to focus on paying dividends to its investors, maintaining a strong balance sheet and exhibiting spending discipline across all business cycles while the efficient management of its high-quality, low-risk asset base provides sustainability to the Company. With this approach, Bonterra has been successful in offering above average results and returns to its investors.

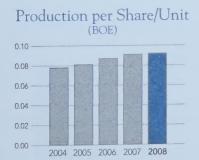
During the majority of 2008, the energy industry continued to operate within a high commodity price environment. However, during the last four months of 2008, the worldwide economic downturn considerably impacted crude oil and natural gas prices with substantial declines throughout the third and fourth quarters of the year. As a result, Bonterra's share price experienced a significant devaluation, a common occurrence for share prices for all publicly traded companies. Additionally, the low commodity prices made it necessary to substantially reduce Bonterra's monthly distribution/dividends.

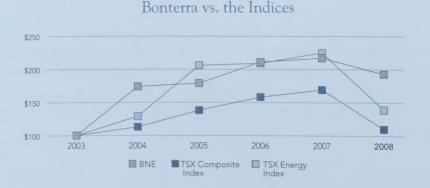
As always, the Company still maintains that the best assessment for an entity is its return to investors. On a one-year basis, Bonterra's total return to shareholders in 2008 was -11 percent. This was a disappointment as 2008 represents the only year in which a negative return was recorded since inception in 1998. However, this does compare well to both its peers and the major indices. As well, for long-term holders of the Company, Bonterra has continued to outperform both over longer periods of time.

Preserving Financial Strength

A conservative approach to the Company's capital structure has been a key factor in building financial strength and flexibility. A keen focus is placed on managing operating and administrative costs to maximize returns and position the Company for future growth.

The Company ended 2008 with a bank debt to cash flow ratio of 2.25 times (based on bank debt of \$93.2 million and annualized 2008 fourth quarter cash flow from operations). This is substantially higher than usual, even though it is in a range that is normal among its peers at the present time. The main reason for the higher debt level is that





when the company announced its reorganization and acquisition, it had various types of options outstanding that were in the money for approximately \$35 million. At closing of the reorganization on November 12, 2008, the world economy had changed substantially, resulting in a large reduction in share prices. As a result, the majority of the outstanding Bonterra options were not exercised. As well, the Company experienced a decrease in cash flow due to the significant drop in commodity prices during the latter half of the year.

Although the bank debt level is still very manageable, Bonterra is focusing on attempting to reduce the bank debt to cash flow ratio from anticipated increases in production levels and future commodity prices or by issuing additional equity. This should allow the Company to fund its upcoming capital development program and take advantage of any acquisition opportunities as they become available.

Organic Growth

Bonterra's strategic capital development program is designed to maximize asset development through infill drilling, workovers and field optimization strategies. In 2008, Bonterra spent approximately \$45.4 million, including acquisitions, on its capital development program, compared to \$19.3 million the previous year. The capital development program was successful in fully replacing 2008 annual production and substantially increasing overall reserves and daily production.

Key attributes of the 2008 program included:

- The continued success of its Pembina Cardium infill drilling program and successful expansion of its Edmonton shallow gas play;
- Economic development of the Upper and Lower Shaunavon formation in southwest Saskatchewan; and

 Continued improvement throughout all aspects of the companies operations.

As a result of the Company's efficient use of capital and disciplined operations focus, Bonterra has been able to further increase its reserve life index to approximately 14.4 and 18.7 years on a total proved and P+P basis, respectively, from 13.7 and 17.4 years in 2007.

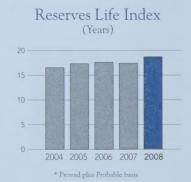
To ensure sustainability, Bonterra continues to look at developing new long-term and low-risk opportunities. The Company has successfully drilled, completed and placed on production its first operated Cardium well using horizontal, multi-stage frac technology. This well is still under evaluation but if successful, the Company intends to continue to pursue additional opportunities in 2009. With low commodity prices and uncertainty in the industry, Bonterra has been able to acquire significant additional lands in this play at low costs.

2009 Capital Spending

Bonterra is planning to carry out a conservative capital development program in 2009. With lower commodity prices and continuing global economic uncertainty, the Company intends to remain focused on its core business strategies.

Bonterra currently has plans to spend approximately \$15 million on its 2009 capital development program. The majority of 2009 drilling is anticipated to occur during the second half of the year due in part to surface land negotiations but mainly due to the Company's determination to wait for the Alberta provincial government to disclose its incentive programs and potential modifications to its high royalty rates that currently make the province uncompetitive for certain types of wells. Bonterra has a drilling inventory in excess of ten years with a wide range of opportunities located in all

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three western provinces. This provides the Company with a high degree of flexibility in executing its 2009 program as Bonterra can respond and revise plans if changes to commodity prices, costs and royalties occur.

Value-Adding Acquisitions

Bonterra's ongoing business strategy remains focused on the development of its long-life, high quality reserves to maximize returns to investors. In addition, Bonterra has sought out value adding acquisitions to further grow its asset base.

During 2008, the Company acquired properties in northeast British Columbia through the closing of a corporate transaction in which Bonterra acquired Silverwing Energy Inc. Production from this area is approximately 650 BOE per day. In addition, Bonterra also received 10,000 net acres of undeveloped land in British Columbia with the right to earn an additional 38,000 acres of non-producing lands in Alberta providing the Company with significant potential for further development. By year-end, Bonterra had successfully integrated the properties into its operations, increased production through drilling and identified additional optimization opportunities to further increase cash flow.

Outlook

The year 2009 brings new challenges with lower commodity prices, the worldwide economic problems and credit crisis. It is impossible to predict when the economy and commodity prices may experience a turnaround and the Company's expectation is that these unmanageable influences will continue to have an impact on Bonterra's results.

However from an operational and financial perspective, Bonterra will continue to prosper. The Company has many competitive advantages that will allow it to continue to pay a high dividend; so that all shareholders will continue to be rewarded on a monthly basis. These include:

- a large drilling inventory;
- premium quality production which generally results in higher netbacks and cashflow;
- large tax pools that should assist in reducing taxes for many years into the future; and
- experienced, loyal and capable employees dedicated to maximizing value for shareholders.

In addition, Bonterra is continually seeking new ways to strengthen its financial position including cost-reduction initiatives, project reviews throughout the year and exploring and implementing operational efficiencies across the company. Bonterra is committed to being successful in 2009 by maintaining a consistent and disciplined approach. The Company will;

- Maintain a long-term focus;
- Continue to concentrate on finding additional operational efficiencies by taking advantage of low cost optimization and development opportunities in all its core areas;
- Take advantage of opportunities that are available in a low price environment including lower land costs, lower project costs and acquisition opportunities;
- Maintain a conservative capital structure.

Taking this approach will allow Bonterra to maintain its strong dividend policy and ensure the long-term sustainability of its business into the future.

Acknowledgements

The Board of Directors and management wish to thank all shareholders for their continued support during these trying times and its dedicated staff for their positive efforts and contributions this past year.

George F. Fink

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Chief Executive Officer and Director

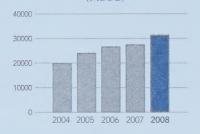
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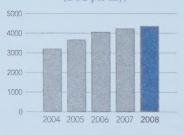
President and Chief Operating Officer

Operations

Proved Plus Probable Reserves



Average Daily Production (BOE per day)



Operations Overview

In 2008, Bonterra's team executed a capital development program which continued to build upon its strong track record of delivering sustainable growth. Operational focus and discipline have again led to reserves growth on a per share basis.

The Company's high-quality asset base consists of concentrated, stable and under-developed properties with large amounts of remaining oil in place, a long reserve life and low-risk, predictable returns. In addition to this strong asset base, which contains over 10 years of identified drilling opportunities; our highly skilled and experienced team is dedicated to maximizing returns from existing properties and adding value and sustainability through the development of new long-term growth opportunities.

Production

Bonterra's production volumes averaged 4,346 BOE per day in 2008. The majority of the 2008 capital development program was executed in the fourth quarter of the year and as such production came on late in the year and did not contribute significantly to the year's average production rate. The corporate acquisition of Silverwing Energy Inc. (Silverwing) was completed late in the year and also had little impact on the annual average. However, the Company's exit rate for the year was a strong 4,950 BOE per day and Bonterra expects production levels to increase on a total and per share basis in 2009 based on current development plans.

Capital Expenditures

Our team's ability to optimize recovery from our high-quality asset base is paramount to the Company's success. In 2008, approximately \$30.1 million was spent on the capital development program which recorded a drilling success rate of 100 percent. The 2008 program consisted of drilling 44 gross (30.9 net) oil and natural gas wells. At year-end, all but four oil wells were on production. These wells have subsequently been placed on production at a capital cost of less than \$1 million being spent in 2009.



A key component of our operations strategy includes acquiring land for long-term growth projects at low prices in core areas. In 2008, Bonterra purchased 4,800 acres (3,520 net) of undeveloped land for approximately \$376,440 or approximately \$107 per acre. Bonterra's undeveloped land base now totals 71,232 gross acres (29,798 net acres). These lands represent both future development opportunities for the company as well as opportunities for farmout transactions.

In 2008, Bonterra completed three farmout transactions totaling 1,136 net acres in the Shaunavon area of Saskatchewan resulting in three lower Shaunavon multi-stage frac horizontal wells and one vertical upper Shaunavon oil well drilled in 2008.

The Company also completed three farm-in transactions totaling 600 net acres during the year. These transactions resulted in one gross (0.25 net) operated multi-stage frac horizontal well being drilled in the Pembina field. In addition, the Company has commitments for the drilling of one additional well in 2009.

For 2009, the capital development program will sustain our focus on the continued development of Bonterra's light oil properties in the Pembina field as well as in the Shaunavon area of Saskatchewan and our new core area in northeast British Columbia. Bonterra currently has plans to drill approximately 30 gross (18 net) oil and gas wells with an estimated capital development budget of \$15 million. This plan includes 18 gross (14 net) Cardium vertical oil wells, two gross (0.65 net) Cardium horizontal oil wells and the balance of the drilling to consist of wells in both British Columbia and Saskatchewan. The majority of the program is expected to be executed in the latter half of 2009 due to both land conditions and the possibility that the Alberta government may make potential modifications to its high royalty rates that make Alberta uncompetitive for drilling certain types of wells.

Operational Excellence

Bonterra's operating strategy is aimed at enhancing cash flow over the long-term to create sustainability in the dividends paid to investors. Bonterra's commitment to operational, technical and administrative excellence helps to reduce development risks and lower operating costs, thus allowing the Company to maximize netbacks.

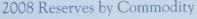
Bonterra operates approximately 84 percent of its total production, thereby allowing the Company to better manage costs and efficiently invest capital. Bonterra is able to strategically schedule development programs, well workovers and facility upgrades to control the nature, pace and risk level of development. As an operator, Bonterra is able to balance production and recovery of reserves with a risk profile suitable to a high-income generating company.

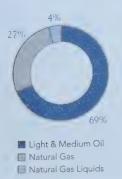
Finding, Development and Acquisition Costs (FD&A)

Results from Bonterra's ongoing operations, active capital development program and the Company's drilling program continue to meet or exceed expectations resulting in increases in the third party engineering evaluation's estimated recoverable reserves from existing wells and as well from future development. Continued low decline rates have also resulted in increased reserves due to technical revisions. Both these factors contributed to an overall FD&A cost in 2008 of \$7.47 per BOE on a proved plus probable basis.

Recycle Ratio

A recycle ratio is an indication of the value created for each dollar a company invests. Bonterra has a strong track record of creating value through its capital expenditures and this year was not an exception. Indeed, the Company is proud to report that the proved plus probable recycle ratio in 2008 was 6.1 times.





* based on proved plus probable reserves

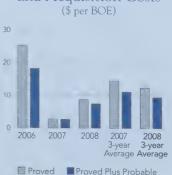
40 30 ■ Cash Netbacks ■ Royalties ■ Field Operating ■G&A Interest & Taxes

Netbacks

(\$ per BOE)

* After realized gain (loss) on risk management contracts

Finding, Development and Acquisition Costs



Key Properties

Pembina

Pembina is Bonterra's main property. It is the Company's largest producing asset and represents 83.7 percent of total reserves. Production in Pembina is primarily oil and solution gas from the Cardium formation and to a lesser extent natural gas from the Edmonton Sands with the remainder coming from the Belly River, Paskapoo and the Ardley Coals.

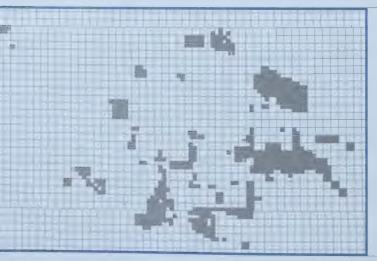
The Pembina Cardium field is the largest conventional oil field in Canada with estimated original oil in place of 7.8 billion barrels with an average recovery to date of just 17 percent. This mature field has proved to be a significant area for multi-zone oil and natural gas exploration with predictable results. Bonterra is the third largest Cardium reserve holder in the area after acquiring the properties throughout the 1990s. After a period of lower commodity prices and beginning in 2003, Bonterra pursued a targeted infill drilling program, low-cost optimization, recompletions and key acquisitions which have resulted in not only increased reserves and maximized income from the properties but a reduction of the base decline. This clearly illustrates Bonterra's ability to provide sustainability and performance for shareholders.

Bonterra has significant potential upside in the Pembina Cardium field which could potentially increase recovery of the original oil in place. New frac technology, re-fracs and frac optimization has served to enhance recovery in older wells. As well, Bonterra drilled and completed its first operated Cardium horizontal multi-stage frac well during 2008. The well was placed on production in 2009 and is currently being evaluated.

In addition, the implementation of two CO_2 pilot projects by other industry operators in the areas points to the vast upside of these enhanced oil recovery projects in the Pembina field. Details of the pilot projects are proprietary, however public information released thus far has been very encouraging. Environmental concerns over CO_2 emissions, location of a low cost source of CO_2 , development of infrastructure and supportive environmental regulations would be required to improve feasibility. Bonterra intends to continue to investigate its potential as a long-term business strategy.

A significant portion of Bonterra's Pembina production in natural gas is derived primarily from the shallow Edmonton sands that consist of a large number of varied quality reservoir sands. These numerous channel sands are distributed throughout the Company's lands and multiple sands can be completed in a single well bore. These wells are drilled to depths shallower than 750 meters and make use of existing and owned infrastructure that reduced development and operating costs. Wells from the Edmonton sands generally have lower productivity that benefit from the new royalty framework in Alberta.

Pembina



2008 Pembina Production

Crude	Oil an	d Liau	iids ((Bbls)	per day)
Cidae	OII all	u Liuu	llus i	DDDIS	Dei uav.

Pembina oil (operated)	2,179
Pembina oil (non-operated)	341
Current average daily production	2,520

Natural Gas (BOE per day)

Solution gas	511
Shallow gas	544
Coalbed methane	8
Current average daily production	1,063

Shaunavon

Bonterra's Shaunavon properties are located in the Whitemud and Chambery fields and produce medium density crude oil from the lower Shaunavon formation. A portion of the property is being produced under waterflood with the majority of the properties still on primary production. The wells in this area are generally long-life with stable, low-decline production profiles and Bonterra continues to evaluate whether additional water flooding or optimization programs should be initiated to further increase profitability from the existing properties.

In 2008, the company drilled three gross (2.9 net) successful upper Shaunavon oil wells which were placed on production in 2009. Bonterra has several follow-up locations identified that will be drilled once commodity prices improve.

Bonterra's lands in the area are located on the edge of the rewarding lower Shaunavon resource play where there has been significant industry activity in 2008. A farmout of expiring lands resulted in three lower Shaunavon wells and one vertical upper Shaunavon well being drilled that performed to the Company's expectation.

With the information obtained from the evaluation of the farmout wells and other industry activity in the area, Bonterra is evaluating future development strategies for the lower Shaunavon. Bonterra has identified potential drilling opportunities that can take advantage of Saskatchewan's favourable royalty regime for horizontal wells once commodity prices improve.

Bonterra's 2009 plans for further development in the Shaunavon area will depend largely on commodity prices as Saskatchewan does have a relatively more favourable royalty regime for certain types of wells.

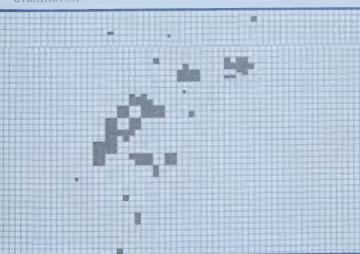
Northeast British Columbia

The corporate acquisition of Silverwing in late 2008 created a new core area in the Prespatou area of northeast British Columbia with significant potential for further development. The properties consist almost entirely of natural gas and associated natural gas liquids with production of approximately 650 BOE per day.

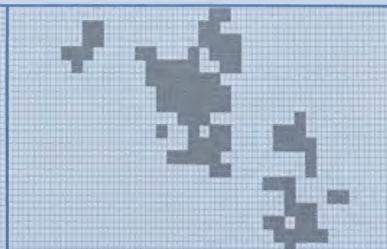
The acquisition of this property occurred late in the year and the Company focused on integrating the properties into its asset base. However, Bonterra was still able to increase production in the area by participating in the drilling of three gross (0.675 net) gas wells in December of 2008.

Bonterra is currently conducting a thorough review of the property to maximize cashflow by reducing operating costs and optimizing well productivity and throughput. The Company is re-evaluating the geology of the entire area to access potential opportunities and identify new ones. The magnitude of 2009 development plans will depend on the outcome of the evaluations and commodity prices.

Shaunavon



Northeast British Columbia



Statistical Review

Reserves

Bonterra engaged the services of Sproule Associates Limited to prepare a reserve evaluation with an effective date of December 31, 2008. The reserves are located in the provinces of Alberta, British Columbia (BC) and Saskatchewan. Bonterra's main oil producing areas are located in the Pembina area of Alberta, northeast BC and the Shaunavon area of Saskatchewan. The gross reserve figures for the following tables represent Bonterra's ownership interest before royalties and before consideration of the company's royalty interests. Tables may not add due to rounding.

Summary of Oil and Gas Reserves as of December 31, 2008

Reserve Category:	Light and Medium Oil Gross (Mbbl)	Natural Gas Gross (MMcf)	Natural Gas Liquids Gross (Mbbl)	BOE Gross (Mboe)
Proved Developed Producing Developed Non-Producing Undeveloped	14,650	32,108	884	20,885
	75	870	11	232
	2,258	3,593	112	2,969
Total Proved	16,983	36,571	1,008	24,086
Probable	4,575	13,675	301	7,155
Total Proved Plus Probable	21,559	50,245	1,308	31,241

Reconciliation of Company Gross Reserves by Principal Product Type as of December 31, 2008

	Light and Med Natural Ga				ВОЕ	
	Gross Proved (Mbbl)	Gross Proved Plus Probable (Mbbl)	Gross Proved (Mmcf)	Gross Proved Plus Probable (Mmcf)	Gross Proved (Mboe)	Gross Proved Plus Probable (Mboe)
December 31, 2007 Extension Improved recovery Technical revisions Discoveries Acquisitions Dispositions Economic factors Production	17,472 263 - 1,296 10 52 - 23 (1,125)	21,910 337 1,716 90 66 (128) (1,125)	24,125 1,949 - 5,651 12 6,878 - 751 (2,795)	32,465 2,516 - 6,824 109 9,946 - 1,180 (2,795)	21,493 588 - 2,238 12 1,198 - 148 (1,591)	27,321 756 - 2,853 108 1,724 - 69 (1,591)
December 31, 2008	17,991	22,867	36,571	50,246	24,086	31,241

Summary of Net Present Values of Future Net Revenue as of December 31, 2008

Net Present Values of Future Net Revenue Before Income Taxes Discounted at (% per Year)

(\$ Millions) Reserve Category:	. 0%	5%	10%	15%	20%
Proved					
Developed Producing	1,004.2	569.2	399.5	311.2	256.7
Developed Non-Producing	6.5	5.3	4.4	3.8	3.3
Undeveloped	85.1	64.5	49.4	38.1	29.5
Total Proved	1,095.8	639.1	453.4	353.1	289.5
Probable	460.0	175.6	94.8	61.0	42.9
Total Proved Plus Probable	1,555.8	814.6	548.2	414.0	332.4

Net Present Values of Future Net Revenue After Income Taxes Discounted at (% per Year)

(\$ Millions) Reserve Category:	0%	5%	10%	15%	20%
Proved				<u> </u>	
Developed Producing	903.7	541.0	389.8	307.3	255.1
Developed Non-Producing	3.1	3.6	3.6	3.4	3.1
Undeveloped	49.8	44.3	37.4	30.7	24.9
Total Proved	956.6	588.8	430.7	341.4	283.0
Probable	339.6	129.5	70.9	46.6	33.6
Total Proved Plus Probable	1,296.2	718.4	501.6	388.0	316.6

Commodity prices used in the above calculations of reserves are as follows:

Year	Edmonton Par Price (Cdn \$ per bbl)	Alberta Gas Reference Price Plantgate (Cdn \$ per MCF)	Propane (Cdn \$ per bbl)	Butane (Cdn \$ per bbl)	Pentane (Cdn \$ per bbl)
2009	65.35	6.47	40.70	51.15	66.93
2010	72.78	7.24	43.16	54.25	74.54
2011	79.95	7.56	47.42	59.59	81.88
2012	86.57	8.15	51.34	64.53	88.66
2013	94.97	9.00	56.33	70.79	97.27
2014	96.89	9.21	57.46	72.22	99.23
2015	98.85	9.42	58.62	73.68	101.23
2016	100.84	9.63	59.81	75.16	103.28
2017	102.88	9.85	61.02	76.68	105.36
2018	104.96	10.17	62.25	78.23	107.49
2019	107.08	10.30	63.50	79.81	109.66

Crude oil, natural gas and liquid prices escalate at two percent per year thereafter

The following cautionary statements are specifically required by NI 51-101.

- 1) It should not be assumed that the estimates of future net revenue presented in the above tables represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.
- 2) Disclosure provided herein in respect of barrels of oil equivalent (BOE) may be misleading, particularly in used in isolation. A BOE conversion ratio of 6 MCF: 1 BOE has been used in all cases of this disclosure. This BOE conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
- 3) Estimates of reserves and future net revenues for individual properties may not reflect the same confidence level as estimates of reserves and future net revenues for all properties due to the effects of aggregation.

Production

The following table provides a summary of production volumes from the Company's main producing areas:

	200	08	2007		
	Oils and NGLs (Bbls per day)	Natural Gas (MCF per day)	Oils and NGLs (Bbls per day)	Natural Gas (MCF per day)	
Pembina area, AB Shaunavon area, SK	2,520 313	6,376	2,346 310	5,555 -	
Northeast BC (1) Other	237	526 735	457	1,072	
	3,073	7,637	3,113	6,627	

⁽¹⁾ The northeast BC properties were acquired in the Silverwing acquisition which closed on November 12, 2008 and thus made little impact on 2008 production volumes.

Land Holdings

Bonterra's holding of petroleum and natural gas leases and rights are as follows:

	2008	2008		
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta	152,917	92,438	133,216	83,609
Saskatchewan	31,182	28,000	33,778	30,409
British Columbia	73,910	30,373	_	
	258,009	150,811	166,994	114,018

Petroleum and Natural Gas Capital Expenditures

The following table summarizes petroleum and natural gas capital expenditures incurred by Bonterra on acquisitions, land, seismic, exploration and development drilling and production facilities for the years ended December 31:

	2008	2007
Acquisitions	\$ 15,347,000	\$ 18,369,000
Disposals	_	(17,664,000)
Exploration and development costs	30,060,000	18,595,000
Net petroleum and natural gas capital expenditures	\$ 45,407,000	\$ 19,300,001

Drilling History

The following table summarizes the Company's gross and net drilling activity and success:

2008	Developm	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net	
Crude oil Natural gas Dry	35.0 8.0 -	25.5 5.9 –	1 - -	0.3 - -	36.0 8.0	25.8 5.1	
Total	43.0	30.6	1	0.3	44.0	30.9	
Success rate	100%	100%	100%	100%	100%	100%	

2007	Developme	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net	
Crude oil Natural gas Dry	22.0 2.0 –	15.3 0.7 –	- - -	- - -	22.0 2.0 –	15.3 0.7	
Total	24.0	16.0	_		24.0	16.0	
Success rate	100%	100%	_	_	100%	100%	

2006	Developm	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net	
Crude oil	43.0	30.3	_		43.0	30.3	
Natural gas	9.0	6.5	_	_	9.0	6.5	
Dry	9.0	8.8	· —		9.0	8.8	
Total	61.0	45.6		_	61.0	45.6	
Success rate	85%	81%	-	_	85%	81%	

Tax Pools

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

Rate of Utilization (\$000)	%	Amount
Undepreciated capital costs	20-100	\$ 23,696
Eligible capital expenditures	7	1,870
Share issue costs	20	4,581
Canadian oil and gas property expenditures	10	25,072
Canadian development expenditures	30	50,743
Canadian exploration expenditures	100	10,530
SR&ED expenditures	100	80,357
Income tax losses carried forward (1)	100	 271,029
		\$ 467 878

⁽¹⁾ Income tax losses carried forward expire in the following years; 2014 - \$1,069,000, 2025 - \$3,179,000, 2026 - \$109,244,000, 2027 - \$116,787,000, 2028 - \$40,750,000.

Share/Trust Unit Trading Statistics

(based on daily closing price)	 2008	2007
High	\$ 39.50	\$ 30.80
Low	\$ 15.50	\$ 22.19
Close	\$ 17.27	\$ 23.99
Daily Average Trading Volume	 23,031	 17,867

Corporate Information

Board of Directors

G.J. Drummond, Nassau, Bahamas G.F. Fink, Calgary, Alberta C.R. Jonsson, Vancouver, British Columbia F. W. Woodward, Calgary, Alberta

Officers

G.F. Fink – Chief Executive Officer R.M. Jarock – President and Chief Operating Officer G.E. Schultz – Vice President, Finance, Chief Financial Officer & Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Borden Ladner Gervais LLP, Calgary, Alberta

Bankers

The Royal Bank of Canada, Calgary, Alberta CIBC, Calgary, Alberta

Stock Listing

The Toronto Stock Exchange, Toronto, Ontario Trading symbol: BNE

Head Office

901, 1015 – 4th Street SW Calgary, Alberta T2R 1J4 PH 403.262.5307 FX 403.265.7488

Web Site

www.bonterraenergy.com

BONTERRA OIL & GAS LTD.

ANNUAL MEETING OF SHAREHOLDERS

To Be Held On May 21, 2009

NOTICE OF MEETING AND MANAGEMENT INFORMATION CIRCULAR

April 13, 2009



BONTERRA OIL & GAS LTD.

901, 1015 Fourth Street S.W. Calgary, Alberta T2R 1J4

NOTICE OF ANNUAL MEETING OF THE SHAREHOLDERS OF BONTERRA OIL & GAS LTD.

TAKE NOTICE that the Annual Meeting (the "Meeting") of the Shareholders of **BONTERRA OIL & GAS LTD.** (hereinafter called the "Corporation") will be held at The Fairmont Palliser Hotel (Marquis Room) 133 Ninth Avenue S.W., Calgary, Alberta, on Thursday, May 21, 2009, at the hour of 11:00 a.m. (Calgary time) for the purposes of:

- 1. Receiving and considering the audited financial statements of the Corporation for the fiscal year ended December 31, 2008 and the Report of the Auditor thereon;
- 2. Electing the Board of Directors for the ensuing year;
- 3. Appointing Auditors for the ensuing year and to authorize the Board of Directors to fix their remuneration; and
- 4. Transacting such other business as may properly be brought before the Meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the Meeting are set forth in the Information Circular dated April 13, 2009, accompanying this Notice and forming part hereof.

Only Shareholders of record at the close of business on April 15, 2009 are entitled to notice of and to attend and vote at the Meeting or any adjournment thereof.

Shareholders who are unable to attend the Meeting in person are requested to date and sign the enclosed proxy and return it, in the envelope provided, to Olympia Trust Company, Suite 2300, 125 - 9 Avenue SE, Calgary, Alberta T2G 0P6. In order to be valid and acted upon at the Meeting, forms of proxy must be returned to the aforesaid address not less than 48 hours, excluding Saturdays, Sundays and statutory holidays, preceding the date of the Meeting, or any adjournment thereof.

DATED at Calgary, Alberta, this 13th day of April, 2009.

BY ORDER OF THE BOARD OF DIRECTORS

(Signed) "George F. Fink"
George F. Fink, Chief Executive Officer



BONTERRA OIL & GAS LTD.

INFORMATION CIRCULAR

ANNUAL MEETING OF SHAREHOLDERS MAY 21, 2009

SOLICITATION OF PROXIES BY MANAGEMENT

This Information Circular is furnished in connection with the solicitation of proxies by the management of Bonterra Oil & Gas Ltd. (the "Corporation") for use at the annual meeting of the holders of common shares ("Common Shares") of the Corporation to be held on Thursday, May 21, 2009, at 11:00 a.m., Calgary time (the "Meeting") or at any adjournment thereof, for the purposes set forth in the Notice of Meeting accompanying this Information Circular.

There is enclosed herewith a form of proxy for use at the Meeting. A copy of the Annual Report, which includes the audited financial statements of the Corporation for the fiscal year ended December 31, 2008, has previously been disseminated to the shareholders. The holders of Common Shares of the Corporation ("Shareholders") are entitled to vote and are encouraged to participate in the Meeting.

This solicitation is made on behalf of the management of the Corporation. The costs incurred in the preparation and mailing of the Notice of Meeting, form of proxy and this Information Circular will be borne by the Corporation. Management does not contemplate a solicitation of proxies other than by mail.

In accordance with National Instrument 54-101 - Communication with Beneficial Owners of Securities of a Reporting Issuer, arrangements have been made with brokerage houses and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the Common Shares held of record by such persons and the Corporation may reimburse such persons for reasonable fees and disbursements incurred by them in doing so.

APPOINTMENT AND REVOCATION OF PROXIES

A Shareholder has the right to appoint a nominee, other than the persons designated in the enclosed form of proxy (who need not be a Shareholder), to represent him at the Meeting, by inserting the name of his chosen nominee in the space provided for that purpose on the form of proxy or by completing another proper form of proxy. Such a Shareholder should notify the nominee of his appointment, obtain his consent to act as proxy and instruct him on how the Shareholder's shares are to be voted. In any case, the form of proxy should be dated and executed by the Shareholder or his attorney authorized in writing.

A form of proxy will not be valid for the Meeting or any adjournment thereof unless it is completed and received by Olympia Trust Company, Suite 2300, 125 - 9 Avenue SE, Calgary, Alberta T2G 0P6, not less than 48 hours, excluding Saturdays, Sundays and statutory holidays, preceding the date of the Meeting, or any adjournment thereof.

In addition to revocation by any other manner permitted by law, a Shareholder who has given a proxy may revoke it, at any time before it is exercised, by instrument in writing executed by the Shareholder or by his attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized and deposited at the registered office of the Corporation at 901, 1015 Fourth Street S.W., Calgary, Alberta T2R 1J4, Attention: Corporate Secretary, at any time up

to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such meeting on the date of the Meeting or any adjournment thereof.

NOTICE TO BENEFICIAL HOLDERS OF SHARES

Only registered Shareholders or the persons they validly appoint as their proxies are permitted to vote at the Meeting. However, in many cases, Common Shares beneficially owned by a person (a "Non-Registered Shareholder") are registered either (i) in the name of an intermediary (an "Intermediary") (including banks, trust companies, securities dealers or brokers and trustees or administrators of self administered RRSPs, RRIFs, RESPs and similar plans) that the Non-Registered Shareholder deals with in respect of the Common Shares, or (ii) in the name of a clearing agency (such as the Canadian Depository for Securities Limited), of which the Intermediary is a participant. In accordance with the requirements of the Canadian Securities Administrators, the Corporation will distribute copies of the Notice of Meeting, this Information Circular, and the enclosed form of proxy (collectively, the "meeting materials") to the clearing agencies and Intermediaries for onward distribution to Non-Registered Shareholders.

Existing regulatory policy requires brokers and other intermediaries to seek voting instructions from Non-Registered Shareholders in advance of Shareholder meetings. The various brokers and other intermediaries have their own mailing procedures and provide their own return instructions to clients, which should be carefully followed by Non-Registered Shareholders in order to ensure that their Common Shares are voted at the Meeting. The form of proxy supplied to a Non-Registered Shareholder by its broker (or the agent of the broker) is substantially similar to the Instrument of Proxy provided directly to registered Shareholders by the Corporation. However, its purpose is limited to instructing the registered Shareholder (i.e., the broker or agent of the broker) how to vote on behalf of the Non-Registered Shareholder. The vast majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Services, Inc. ("Broadridge") in Canada. Broadridge typically prepares a machine-readable voting instruction form, mails those forms to Non-Registered Shareholders and asks Non-Registered Shareholders to return the forms to Broadridge, or otherwise communicate voting instructions to Broadridge (by way of the Internet or telephone, for example). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting. A Non-Registered Shareholder who receives a Broadridge voting instruction form cannot use that form to vote Common Shares directly at the Meeting. The voting instruction forms must be returned to Broadridge (or instructions respecting the voting of Common Shares must otherwise be communicated to Broadridge) well in advance of the Meeting in order to have the Common Shares voted. If you have any questions respecting the voting of Common Shares held through a broker or other intermediary, please contact that broker or other intermediary for assistance.

Although a Non-Registered Shareholder may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of his broker, a Non-Registered Shareholder may attend the Meeting as proxyholder for the registered Shareholder and vote the Common Shares in that capacity. Non-Registered Shareholders who wish to attend the Meeting and indirectly vote their Common Shares as proxyholder for the registered Shareholder, should enter their own names in the blank space on the form of proxy provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker.

VOTING OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Corporation and have indicated their willingness to represent as proxy the Shareholders who appoint them. Each Shareholder may instruct his proxy how to vote his shares by completing the blanks on the form of proxy.

Common Shares represented by properly executed proxy forms in favour of the persons designated on the enclosed proxy form will be voted for, against, or withheld from voting in accordance with the instructions made on the proxy forms, on any ballot that may be called for and, if Shareholders specify a choice as to any matters to be acted upon, such Shareholders' shares shall be voted accordingly. In the absence of such instructions or choices, such shares will be voted in favour of all matters identified in the Notice of Meeting accompanying this Information Circular.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments and variations to matters identified in the Notice of Meeting and with respect to any other matters which may properly come before the Meeting. The Common Shares represented by the proxy will be voted on such matters in accordance with the best judgment of the person voting such shares. At the time of printing of this Information Circular, management knows of no such amendments, variations or other matters to come before the Meeting.

VOTING SHARES AND PRINCIPAL HOLDERS OF SHARES

The Corporation is authorized to issue an unlimited number of Common Shares, an unlimited number of Class A Redeemable Preferred Shares and an unlimited number of Class B Preference Shares, issuable in series, all without par value. As of April 13, 2009, 17,257,603 Common Shares were issued and outstanding. On all matters to be considered and acted upon at the Meeting, holders of Common Shares are entitled to one vote for each Common Share held.

The Board of Directors has fixed April 15, 2009, as the record date (the "Record Date") for determining which Shareholders are entitled to receive notice of the Meeting. A shareholder of record at the close of business on April 15, 2009, shall be entitled to vote the Common Share registered in such shareholder's name on that date, except to the extent that (a) such person transfers his Common Shares after the Record Date; and (b) the transfere of those Common Shares produces properly endorsed share certificates or otherwise establishes his ownership to the Common Shares, and makes a demand to the registrar and transfer agent of the Corporation, not later than 10 days before the Meeting, that his name be included on the Shareholders' list.

To the best of the knowledge of the directors and officers of the Corporation, as at April 13, 2009, no person or company beneficially owns or controls or directs, directly or indirectly, Common Shares carrying more than 10% of the voting rights of the Corporation except as set out in the table below:

Name and Municipality of Residence	Number of Common Shares	Percent
George F. Fink Calgary, Alberta	2,860,561	16.6%

QUORUM FOR MEETING

At the Meeting, a quorum shall consist of two or more persons either present in person or represented by proxy and representing in the aggregate not less than 25% of the outstanding Common Shares. If a quorum is not present at a meeting within a reasonable time after the time fixed for the holding of the

meeting, the Shareholders present or represented at the meeting may adjourn the meeting to a fixed time and place but may not transact any other business.

APPROVAL REQUIREMENTS

All of the matters to be considered at the Meeting require approval by more than 50% of the votes cast in respect of the resolution by or on behalf of Shareholders present in person or represented by proxy at the Meeting.

MATTERS TO BE ACTED UPON AT THE MEETING

To the knowledge of the Corporation's directors, the only matters to be placed before the Meeting are those set forth in the accompanying Notice of Meeting and more particularly discussed below.

1. Election of Directors

At the Meeting, it is proposed that four persons be elected as directors of the Corporation, to serve until the next annual meeting of Shareholders or until their successors are duly elected or appointed. The persons designated in the enclosed form of proxy, unless instructed otherwise intend to vote for the election of the following nominees. Management does not contemplate that any of the nominees will be unable to serve as a director, but, if that should occur for any reason prior to the Meeting, the persons designated in the enclosed form of proxy reserve the right to vote for other nominees in their discretion.

The names and municipalities of residence of the four persons nominated for election as directors of the Corporation by shareholders, the number of Common Shares of the Corporation beneficially owned or controlled or directed, directly or indirectly, the offices held by each in the Corporation, the period served as director of the Corporation and the present principal occupation of each are as follows:

Name and Municipality of Residence	Number of Common Shares Beneficially Owned or Controlled (1)	Time as Director (5)	Principal Occupation		
GARY J. DRUMMOND (2)(3) 245,114 Nassau, Bahamas		Director since 1999.	Mr. Drummond is a private investor and a director of several entities including Comaplex Minerals Corp., Pine Cliff Energy Ltd., and Universal Energy Group Ltd. (resource companies). Mr. Drummond is also a Trustee of Heating Oil Partners Income Fund.		
GEORGE F. FINK Calgary, Alberta Canada	2,860,561	Director since 1987.	Chartered Accountant. Chief Executive Officer, Director and Chairman of the Board of the Corporation and President, Chief Executive Officer and Director of Comaplex Minerals Corp. and Pine Cliff Energy Ltd. (resource companies). Mr. Fink is also a Trustee of First National AlarmCap Income Fund.		

CARL R. JONSSON (2)(3) Vancouver, B.C. Canada

126,339 Director since 1987.

Principal with the Vancouver law firm of Tupper, Jonsson & Yeadon. Mr. Jonsson is also a director of Comaplex Minerals Corp. and Pine Cliff Energy Ltd., Caledonia Mining Corp., Comet Industries Ltd., Astorius Resources Ltd., Acrex Ventures Ltd., Dolly Varden Resources Inc., Alder Resources Ltd. and Cayenne Gold Mines Ltd.

F. WILLIAM WOODWARD (2)(3) Calgary, Alberta Canada 1,107,893

Director since 1987.

Mr. Woodward is a private investor and a director of Comaplex Minerals Corp. and Pine Cliff Energy Ltd.

Notes:

- (1) The information as to the number of Common Shares beneficially owned or controlled by directors, not being within the knowledge of the Corporation, has been furnished to the Corporation by the individual nominees.
- (2) Member of the Policy, Governance and Nominating Committee.
- (3) Member of the Audit Committee.
- (4) All of the directors are members of the Compensation Committee, the Disclosure Committee and the Reserves Committee.
- (5) Period includes service as a director of Bonterra Energy Corp., the administrator of Bonterra Energy Income Trust, the predecessor of the Corporation.

Corporate Cease Trade Order or Bankruptcies

Other than as set forth below, none of those persons who are proposed directors of the Corporation is, or has been within the past ten years:

- (a) a director or chief executive officer or chief financial officer of any company, including the Corporation, that while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or was subject to an event that resulted, after the proposed director ceased to be a director or chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- (b) a director or executive officer of any company, including the Corporation, that while acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Jonsson was a director or officer of Global CT & T Telecommunications Inc., Global Net Entertainment Corp. and TelcoPlus Enterprises Inc., all of which were subject to cease trade orders for failure to file financial statements. A cease trade order was issued by the Alberta Securities Commission ("ASC") in respect of TelcoPlus Enterprises Inc. on July 18, 2003 and was revoked on January 26, 2005. A cease trade order issued by the ASC with respect to Global Net Entertainment Corp. on October 23, 2003 remains outstanding and cease trade orders issued by the ASC and the British Columbia Securities Commission in respect of Global CT & T Telecommunications Inc. on November 23, 2001 and August 25, 2000, respectively, remain outstanding.

Mr. Drummond is a trustee of Heating Oil Partners Income Fund a Canadian income fund that distributes heating oil in the United States of America. On September 26, 2005, the Fund's operating subsidiary

Heating Oil Partners, L.P. filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code and filed for recognition of the Chapter 11 proceedings under the Companies' Creditors Arrangement Act (Canada). As a consequence of these filings, the Fund's trust units were suspended from listing on the TSX effective at the close of business on October 6, 2005 and were subsequently delisted on November 7, 2005.

2. Appointment of Auditors

At the Meeting, it is the intention of the persons named in the enclosed form of proxy to vote in favour of a resolution to appoint the firm of Deloitte & Touche LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of the Corporation until the next annual meeting of shareholders and to authorize the Board of Directors to fix the remuneration of the auditors.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

The Corporation is not aware of any material interest of any director, executive officer, nominee for election as a director of the Corporation or of any associate or affiliate of any of the foregoing in respect of any matter to be acted on at the Meeting, except as specifically provided herein.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of any "informed person" (as defined in NI 51-102) of the Corporation, any proposed nominee for election as a director of the Corporation or any associate or affiliate of any such person or proposed nominee in any transaction since the beginning of the most recently completed financial year, or in any proposed transaction, that has materially affected or would materially affect the Corporation or its predecessor, Bonterra Energy Income Trust (the "Trust").

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No directors or senior officers of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any one of them, is or was indebted to the Corporation, the Trust or any of their respective subsidiaries at any time since the beginning of the most recently completed financial year, with the exception of Mr. Jonsson and an associated company of Mr. Fink, who owed Bonterra Energy Corp. various amounts throughout the year of less than \$10,000 for their share of joint venture development costs. No amounts were owing as of December 31, 2008.

STATEMENT OF EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee is responsible for setting the overall compensation strategy of the Corporation and administering the Corporation's executive compensation program. As part of its mandate, the Compensation Committee approves the appointment and remuneration of the Corporation's executive officers, including the Named Executive Officers identified in the Summary Compensation Table. The Compensation Committee is also responsible for reviewing the Corporation's compensation policies and guidelines generally.

The objective of the executive compensation program is to attract, motivate, reward and retain management talent that is needed to achieve the Corporation's business objectives. The compensation

program is designed to ensure that compensation is competitive with other companies of similar size and is commensurate with the experience, performance and contribution of the individuals involved and the overall performance of the Corporation. In evaluating performance, the Compensation Committee gives consideration to the Corporation's long-term interests and quantitative financial objectives, as well to the qualitative aspects of the individual's performance and achievements. In addition, the Compensation Committee will receive and review recommendations of the Chief Executive Officer relating to the general compensation structure and policies and programs for the Corporation and the salary and benefit levels for the executive officers.

The executive compensation program is comprised of three principal components: base salaries, a bonus plan and a stock option plan which are designed to provide a combination of cash and equity-based compensation to effectively retain and motivate the executive officers to achieve the corporate goals and objectives. Each component of the executive compensation program is described below.

Base Salaries

Executive officers are paid a base salary to compensate them for providing the leadership and specific skills needed to fulfill their responsibilities. The base salaries for the executive officers are reviewed annually by the Compensation Committee and are determined by considering the contributions made by the officers, how their compensation levels related to compensation packages that would be achievable by such officers from other opportunities and commercially available salary survey data. Salaries of the executive officers are not determined based on benchmarks or a specific formula. The Compensation Committee submits its recommendation to the full board of directors to determine the salary of the Chief Executive Officer. The Compensation Committee considers, and if thought appropriate, approves salaries recommended by the Chief Executive Officer for the other executive officers of the Corporation.

Bonus Plan

The Board, upon the recommendation of the Compensation Committee, approves bonus payments to reward executive officers for their contribution to the achievement of annual corporate goals and objectives. The payment of bonuses is consistent with the overall objective of the Corporation to reward performance. Bonuses were awarded for 2008 in recognition of performance on a discretionary basis. The Corporation does not have any specific goals to determine bonus payments. The bonus pool is made up of 3 percent pre-income tax profit and 100 percent of this bonus money is paid out on a discretionary basis. Management determines the amount to be paid to each employee and it is then presented to the Compensation Committee for approval.

Stock Option Plan

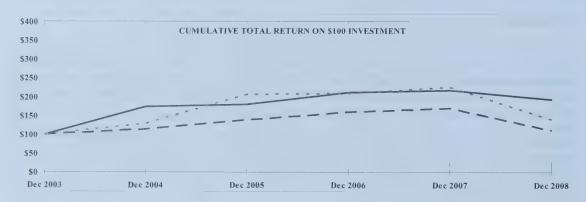
The Corporation has adopted an incentive stock option plan (the "Option Plan") pursuant to which options to purchase Common Shares may be granted to directors, officers, employees and consultants of the Corporation. The Option Plan is designed, through the grant of options, to reward key individuals in relation to the share price of the Corporation. The Option Plan is an integral component of the Corporation's total compensation program in terms of attracting and retaining key employees and enhances shareholder value by aligning the interests of executives and employees with the growth and profitability of the Corporation. The longer-term focus of the Option Plan complements and balances the short-term elements of the compensation program of the Corporation.

Pursuant to the Option Plan, the Board may, on the recommendation of the Compensation Committee, grant from time to time to directors, officers, employees and consultants of the Corporation options to purchase Common Shares. In determining the number of options to be granted to the executive officers, the Compensation Committee considers the amount, terms and vesting levels of existing options held by

the officers and also the number of options remaining available for grant by the Corporation in the future to attract and retain qualified technical and administrative staff. Generally, the number of options granted to any optionee is a function of the level of authority and responsibility of the optionee, the contribution that has been made by the optionee to the business and affairs of the Corporation, the number of options that have already been granted to the optionee and such other factors as the Compensation Committee may consider relevant.

Performance Graph

The following graph compares the yearly percentage change in the cumulative shareholder return over the last five years of the Common Shares of the Corporation or the trust units of the Trust (assuming a \$100 investment was made on December 31, 2003 and reinvestment of distributions) and the cumulative total return of the S&P/TSX Composite Index.



	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
BONTERRA OIL & GAS						
LTD.	 \$100	\$174	\$179	\$211	\$217	\$193
TSX COMPOSITE INDEX	\$100	\$113	\$138	\$158	\$169	\$110
TSX ENERGY INDIX	\$100	\$129	\$206	\$209	\$225	\$139

Total Shareholder Return (TSR) and Its Relationship with Executive Compensation

Executive compensation is defined as the aggregate of base salary, annual bonuses (if any), stock options, and any other miscellaneous types of benefits that may periodically be granted to an executive. When the Compensation Committee of the Board of Directors and the Board of Directors determines overall compensation, it considers a number of factors and performance elements. Although TSR is one performance measure that is reviewed, it is not the only consideration. As a result, a direct correlation between TSR over a given period and executive compensation levels is not anticipated.

Option-Based Rewards

The process that the Corporation uses to grant option-based awards to executive officers, including the Named Executive Officers, is for the Board to approve option grants based on recommendations made by

the Compensation Committee. Option grants can be made at any time and there are no specific periods for the issuance of options. Option awards are determined based on the factors described above under the heading "Stock Option Plan".

Summary Compensation Table

The following table sets forth a summary of all compensation for services paid during the most recently completed financial year for George F. Fink, Chief Executive Officer, Randy M. Jarock, President and Chief Operating Officer and Garth E. Schultz, Vice-President, Finance, Chief Financial Officer and Secretary. No other executive officer received total compensation of more than \$150,000 during the most recently completed financial year.

Name and principal position	Year	Salary (\$)	Share- based awards (\$)	Option- based awards (\$) ⁽¹⁾	plan con	ty incentive npensation (\$)	Pension value (\$)	All other compensation (\$) ⁽²⁾	Total compensa- tion (\$)
					Annual incentive plans	Long term incentive plans			
George F. Fink, Chief Executive Officer	2008	194,250	nil	133,200	196,000	nil	nil	nil	523,450
Randy M. Jarock, President and Chief Operating Officer	2008	181,917	nil	133,200	196,000	nil	nil	nil	511,117
Garth E. Schultz, Vice-President, Finance, Chief Financial Officer and Secretary	2008	181,917	nil	133,200	196,000	nil	nil	nil	511,117

Notes:

- (1) The value of the Option-based Awards represents the compensation value of options granted on November 24, 2008. The November 24, 2008 option grant value is based on a share price of \$20.50 and a Black-Scholes volatility factor of 31%. The option grant compensation value reflects a 3.5 year life of the options as well as assumptions for risk-free interest rate and dividend yield. The number of stock options granted to each Named Executive Officer on November 24, 2008 is provided in the Stock Options table, below.
- (2) The value of perquisites and benefits for each Named Executive Officer is less than \$50,000 and less than 10% of each Named Executive Officer's total salary for the financial year.
- (3) Table includes compensation paid by the Trust prior to the Plan of Arrangement among the Corporation, the Trust and the subsidiaries of the Trust which closed on November 12, 2008 (the "Arrangement") and compensation paid by the Corporation following the Arrangement.

Incentive Stock Option Plan

The Corporation has an Option Plan which was approved by shareholders on October 16, 2008. The Option Plan is administered by the Board of Directors and reserves for the grant of options 10% of the Common Shares outstanding (on a non-diluted basis). Employees, consultants and insiders of the Corporation and its subsidiaries are entitled to participate in the Option Plan. The exercise price of an option is determined at the time of grant and is to be not less than the closing price of the Common Shares on the TSX on the last day preceding the grant on which a trade of Common Shares occurred on the TSX. The term of an option shall not be less than one year and not more than five years from the date of grant. Unless otherwise specified, options vest as to one-third of the entitlement each year following the date of grant. Options are exercisable only during the term of employment or service of an employee, consultant or officer or during the period of service as a director, subject to limited exceptions in the event of death or termination without cause.

The number of Common Shares reserved for issuance to insiders of the Corporation pursuant to options and other security based compensation arrangements shall not exceed 10% of the total number of Common Shares outstanding. Furthermore, the issuance of Common Shares to insiders of the Corporation pursuant to options and other security based compensation arrangements shall not exceed or result in the issuance to insiders during a one year period of more than 10% of the total number of Common Shares outstanding, nor may the issuance to any one such insider and associates of such insider, within a one year period, exceed 5% of the total number of Common Shares outstanding. In addition, the number of Common Shares reserved for issuance to any one person pursuant to options shall not exceed 5% of the total number of Common Shares then outstanding. Options are not assignable or transferable.

The Board may amend the Option Plan and may amend the terms and conditions of options granted pursuant to the Option Plan, without shareholder approval, provided that the amendment does not change the number of options issuable under the Option Plan, add any form of financial assistance by the Corporation, result in a material or unreasonable dilution in the number of outstanding Common Shares, provide a material benefit to an optionholder, change the class of eligible participants to the Option Plan or extend the term of options held by insiders. Amendments are subject to any required approval of any regulatory authority or stock exchange.

At the date of this information circular, 1,390,500 options to acquire Common Shares were outstanding representing 8% of the 17,257,603 Common Shares outstanding.

Incentive Plan Awards

Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth information in respect of all share-based awards and option-based awards outstanding at the end of the financial year ended December 31, 2008 to the Named Executive Officers of the Corporation.

		Option-bas	Share-based Awards			
Name	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the- money options (\$) ⁽¹⁾	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)^{(1)}
George F. Fink	120,000	\$20.50	Nov. 30/12	0	120,000	0
Randy M. Jarock	120,000	\$20.50	Nov. 30/12	0	120,000	0
Garth E. Schultz	120,000	\$20.50	Nov. 30/12	0	120,000	0

Note:

(1) Value is calculated based on the difference between the exercise price of the options and the closing price of the Corporation's Common Shares on the Toronto Stock Exchange on December 31, 2008 of \$17.27.

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets forth information relating to the value vested or earned during the Corporation's financial year ended December 31, 2008 in respect of option-based awards, share-based awards and non-equity incentive plan compensation for Named Executive Officers of the Corporation.

Name	Option-based awards – Value vested during the year (\$) ⁽¹⁾	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
George F. Fink	87,750	nil	196,000
Randy M. Jarock	87,750	nil	196,000
Garth E. Schultz	87,750	nil	196,000

Notes:

- (1) Value is calculated based on the difference between the exercise price of the options and the closing price of the Corporation's Common Shares on the Toronto Stock Exchange on the vesting date (October 1, 2008) of \$30.25.
- (2) Table includes compensation paid by the Trust prior to the Arrangement and compensation paid by the Corporation following the Arrangement.

Termination and Change of Control Benefits

The Corporation has no written contract, agreement, plan or arrangement that provides for payment to an executive officer in connection with any termination, resignation, retirement, change of control of the Corporation or change in the responsibilities of the executive officer.

Director Compensation

Director Compensation Table

The following table sets forth information in respect of all amounts of compensation provided to the directors during the Corporation's financial year ended December 31, 2008.

Name	Fees earned (\$)	Share- based awards (\$)	Option- based awards (\$) ⁽¹⁾	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Gary J. Drummond	9,800	nil	83,250	nil	n/a	nil	93,050
Carl R. Jonsson	9,800	nil	83,250	nil	n/a	nil	93,050
F. William Woodward	9,800	nil	99,900	nil	n/a	nil	109,700

Notes:

- (1) The value of the Option-based Awards represents the compensation value of options granted on November 24, 2008. The November 24, 2008 option grant value is based on a share price of \$20.50 and a Black-Scholes volatility factor of 31%. The option grant compensation value reflects a 3.5 year life of the options as well as assumptions for risk-free interest rate and dividend yield. The number of stock options granted to each director on November 24, 2008 is provided in the Stock Options table, below.
- (2) Table includes compensation paid by the Trust prior to the Arrangement and compensation paid by the Corporation following the Arrangement.

Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth information in respect of all share-based awards and option-based awards outstanding at the end of the financial year ended December 31, 2008 to the directors of the Corporation.

		Share-based Awards				
Name	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the- money options (\$)(1)	Number of shares or units of shares that have not vested (#)	Market or payout value of share- based awards that have not vested (\$)^{(1)}
Gary J. Drummond	75,000	\$20.50	Nov. 30/12	0	75,000	0
Carl R. Jonsson	75,000	\$20.50	Nov. 30/12	0	75,000	0
F. William Woodward	90,000	\$20.50	Nov. 30/12	0	90,000	0

Note:

(1) Value is calculated based on the difference between the exercise price of the options and the closing price of the Corporation's Common Shares on the Toronto Stock Exchange on December 31, 2008 of \$17.27.

Incentive Plan Awards - Value Vested or Earned During the Year

The following table sets forth information in respect of the value vested or earned during the Corporation's financial year ended December 31, 2008 of option-based awards, share-based awards and non-equity incentive plan compensation for directors of the Corporation.

N	Option-based awards – Value vested during the year	Share-based awards – Value vested during the year	Non-equity incentive plan compensation – Value earned during the year
Name	(Ψ)	(\$)	(\$)
Gary J. Drummond	\$58,500	nil	nil
Carl R. Jonsson	\$58,500	nil	nil
F. William	\$68,250	nil	nil
Woodward			

Notes:

(1) Value is calculated based on the difference between the exercise price of the options and the closing price of the .Corporation's Common Shares on the Toronto Stock Exchange on the vesting date (October 1, 2008) of \$30.25.

(2) Table includes compensation from the Trust prior to the Arrangement and compensation from the Corporation following the Arrangement.

EQUITY COMPENSATION PLAN INFORMATION

As of December 31, 2008, equity securities are authorized for issuance as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders - Stock Option Plan	1,390,500	\$20.50	335,260 ⁽¹⁾
Equity compensation plans not approved by security holders	Nil	Nil	Nil
Total	1,390,500	\$20.50	335,260

Note:

(1) The Stock Option Plan reserved a maximum of 10% of the 17,257,603 Common Shares outstanding at December 31, 2008.

DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

Under National Instrument 58-101 - Disclosure of Corporate Governance Practices, the Corporation is required to include in this Management Information Circular the disclosure required under Form 58-101F1 with respect to the matters set out under National Policy - 58-201 Corporate Governance Guidelines.

Board of Directors

The Corporation's Board of Directors, which is responsible for supervising the management of the business and affairs of the Corporation, is comprised of four directors, of which three are independent. The independent directors are Gary J. Drummond, Carl R. Jonsson and F. William Woodward. The President and Chief Executive Officer of the Corporation, George F. Fink is not independent by virtue of being a member of the Corporation's management. All of the Corporation's directors serve as directors of other reporting issuers as indicated in the table below.

Directorships Held		
Comaplex Minerals Corp.		
Pine Cliff Energy Ltd.		
Heating Oil Partners Income Fund ⁽¹⁾		
Universal Energy Group Ltd.		
Comaplex Minerals Corp.		
Pine Cliff Energy Ltd.		
First National AlarmCap Income Fund ⁽¹⁾		

Director	Directorships Held -		
Carl R. Jonsson	Comaplex Minerals Corp.		
	Pine Cliff Energy Ltd.		
	Caledonia Mining Corp.		
	Comet Industries Ltd.		
	Astorius Resources Ltd.		
	Acrex Ventures Ltd.		
	Dolly Varden Resources Inc.		
	Alder Resources Ltd.		
	Cayenne Gold Mines Ltd.		
F. William Woodward	Comaplex Minerals Corp.		
	Pine Cliff Energy Ltd.		

Note:

(1) Trustee of the issuer indicated.

The independent members of the Board of Directors do not hold regularly scheduled meetings at which the non-independent director and members of management are not in attendance given the size of the Corporation. However, at such times as fully independent meetings are required, the non-independent director and management would be excluded. During the most recently completed financial year, the independent directors of the Corporation (or the administrator of the predecessor Trust, as applicable) held one meeting without the non-independent director and members of management present. Mr. Fink is the Chairman of the Board and is not independent. The Board has determined that it is appropriate to combine the offices of Chairman and Chief Executive Officer to maintain efficiencies in establishing corporate goals and objectives. In order to provide leadership for the independent directors, the Board encourages communication among the independent directors. All directors attended all four scheduled meetings and six telephone meeting of the Board of Directors, as well as their respective committee meetings.

Board Mandate

The Mandate of the Board of Directors is to plan the Corporation's long term objectives and goals on a continuous basis. The Board Mandate is attached hereto as Schedule "A".

Board Committees

The Board of Directors has established the following Board Committees comprised of the members set out in the following table:

Committee	Members	Independent
Audit Committee	Gary J. Drummond	Yes
	Carl R. Jonsson	Yes
	F. William Woodward – Chair	Yes
Compensation Committee	Gary J. Drummond	Yes
	George F. Fink	No ⁽¹⁾
	Carl R. Jonsson	Yes
	F. William Woodward – Chair	Yes
Policy, Governance and	Gary J. Drummond - Chair	Yes
Nominating Committee	George F. Fink	No ⁽¹⁾
	Carl R. Jonsson	Yes
	F. William Woodward	Yes
Disclosure Committee	Gary J. Drummond	Yes
	George F. Fink	$No^{(1)}$
	Carl R. Jonsson – Chair	Yes
	Garth E. Schultz	$No^{(1)}$
	F. William Woodward	Yes
Reserves Committee	Gary J. Drummond - Chair	Yes
	Carl R. Jonsson	Yes
	George F. Fink	$No^{(1)}$
	F. William Woodward	Yes

Note:

(1) This person is not considered to be independent as he is a member of management of the Corporation.

The function of the Policy, Governance and Nominating Committee is to recommend governance policies for adoption by the Corporation, and to amend, administer and monitor compliance with the Corporation's governance policies. The function of the Disclosure Committee is to ensure that written and oral communications regarding the Corporation are timely, factual and accurate, broadly disseminated and reviewed by the Disclosure Committee in compliance with the Disclosure Policy approved by the Committee, and to assist the CEO and CFO in the discharge of their duties regarding certification of interim and annual financial statements. The function of the Reserves Committee is to recommend the engagement of a reserves evaluator, ensure the reserves evaluator's independence, review the procedures for disclosure of reserves evaluation, meet independently with the reserves evaluator to review the scope of the annual review of reserves, discuss findings and disagreements with management, annually assess the work of the reserves evaluator and approve the Corporation's annual reserve report and consent forms of management and the reserves evaluator thereto.

Position Descriptions

The position descriptions are as follows:

Board of Directors and Committee Chairs

The Board of Directors is responsible for the overall direction of the Corporation. Its role is to guide the Corporation and set objectives that will best serve the interests of the Shareholders. The Board of Directors meets or has conference call meetings at least four times per year. Each Committee meets a minimum number of times per year as required to conduct its respective duties. Agendas are provided to all directors in advance of all meetings and are generally prepared by management and are discussed with Board members who are responsible for particular items with regard to the agenda. The Chairs of the Committees are responsible for setting the agenda for each of their respective Committee meetings. The Chair of each Committee reports to the Board of Directors following each Committee meeting. Minutes of each Board of Directors and Committee meeting are executed and copies are provided to the full Board of Directors. The Board of Directors and Committees continue to establish key goals to provide focus to the core responsibilities on an ongoing basis.

The Board of Directors and each Committee can meet independently of management at any time and are encouraged to do so whenever a member deems it is warranted. The Board of Directors and each Committee also have the authority to engage independent advisors, paid for by the Corporation, to provide it with expert advice.

Currently the Board of Directors consists of three independent directors and one director who is the CEO. The term for each director is for one year. The main responsibility of the Chairs of the respective Committees as outlined above is to assess the requirements of the specific Committee on an ongoing basis and to communicate these requirements to the full Board of Directors. The term of each Committee Chair is for one year.

Each Board member is evaluated informally each year by all of the other Board members and formally by all of the Shareholders in that they are required to be elected each year by the Shareholders.

CEO Position

The Chair of the Policy, Governance and Nominating Committee sets goals and objectives each year for the CEO by providing guidance through approval of formal documents and informal discussions with Board of Directors members and Committee members including the CEO. The three independent directors evaluate the CEO's performance at least annually. For a detailed analysis of the CEO's compensation for 2008, please see "Statement of Executive Compensation" above.

Orientation and Continuing Education

The Corporation has developed an orientation program, administered by the Policy, Governance and Nominating Committee, for new directors which provides each new director with all applicable information regarding the roles and responsibilities of the Board of Directors, each Committee, the Board Chair, Chair of each Committee and the CEO. It provides information regarding the nature and operation of the Corporation's business, its organizational structure, governance policies including the Board Mandate and each Committee Mandate, the Whistleblowing Policy and the Code of Business Conduct, which is available on SEDAR at www.sedar.com and the Corporation's Disclosure Policy. The information is updated as the Corporation's business, governance documents and policies change. The Corporation arranges for presentations to be made to the Board of Directors and each Committee of the Board of Directors to inform directors regarding corporate developments and changes in legal, regulatory

and industry requirements affecting the Corporation. As well, directors are encouraged to visit the Corporation's facilities, to interact with management and employees and to stay abreast of industry developments and the evolving business of the Corporation. The Corporation encourages its Board of Directors and Committee members to continue to educate themselves through courses and discussions that will be paid for by the Corporation to ensure that its Directors maintain the skill and knowledge necessary to meet their obligations as Directors.

Ethical Business Conduct

The Corporation has adopted a written Code of Business Conduct (the "Code"). The Policy, Governance and Nominating Committee takes reasonable steps to monitor compliance with the Code by requiring employees, on the commencement of their employment and as and when directed by management, to sign a copy of the Code acknowledging that they have read, understood and will comply with the Code. The Code applies to the Corporation's directors, executive officers, management, employees and consultants, each of whom is expected to ensure that his or her behaviour accords with the letter and the spirit of the Code. The Code also encourages all parties who engage in business with the Corporation to contact the Chair of the Policy, Governance and Nominating Committee regarding any perceived and all actual breaches by the Corporation's directors, officers and employees of the Code. The Chair of the Committee is responsible for investigating complaints, presenting complaints to the Committee and any other applicable Committee of the Board of Directors or the Board of Directors as a whole, and developing a plan for promptly and fairly resolving complaints. Upon conclusion of the investigation and resolution of a complaint, the Chair of the Committee will advise the complainant of the corrective measures that have been taken or advise the complainant that the complaint has not been substantiated. The Code prohibits retaliation by the Corporation, its directors, executive officers and management, against complainants who raise concerns in good faith and requires the Corporation to maintain the confidentiality of complainants to the greatest extent practicable. Complainants may also submit their concerns anonymously in writing. However, complaints that in the future are determined to be inaccurate or untruthful could result in suspension or dismissal.

In addition to the Code, the Corporation has an Audit Committee Charter regarding the collection and dissemination of accounting information, and a Whistleblowing Policy with respect to reporting accounting and auditing irregularities. Copies of these documents are available on the Corporation's website.

Since the beginning of the most recently completed financial year, no material change reports have been filed that pertains to any conduct of a director or executive officer that constitutes a departure from the Code.

Exercise of Independent Judgement

The Board of Directors encourages and promotes a culture of ethical business conduct by appointing directors who demonstrate integrity and high ethical standards in their business dealings and personal affairs. Directors are required to abide by the Code and are expected to make responsible and ethical decisions in discharging their duties, thereby setting an example of the standard to which management and employees should adhere. The Board of Directors is required by the Board Mandate to satisfy itself that the CEO and other executive officers are acting with integrity and fostering a culture of integrity throughout the Corporation.

The Policy, Governance and Nominating Committee is responsible for reviewing departures from the Code by executive officers, management, employees and consultants, reviewing and either providing or denying waivers from the Code, and disclosing any waivers that are granted in accordance with applicable law. The Board of Directors as a whole is responsible for responding to conflict of interest situations involving directors, particularly with respect to existing or proposed transactions and agreements in respect of which directors advise they have a material interest.

Conflicts of Interest

The Board Mandate requires: (1) that directors and officers disclose any material interest in any transaction or agreement with the Corporation; (2) that an individual director, if requested by the Board of Directors, excuse himself or herself from Board of Directors' deliberations; and (3) that directors do not vote in respect of transactions in which they have an interest. The Corporation's directors and officers abide by the disclosure of conflict of interest provisions contained in the *Business Corporations Act* (Alberta), which are incorporated in the Code by reference. By taking these steps, the Board of Directors strives to ensure that directors at Board of Directors meetings exercise independent judgement, unclouded by the relationships of the directors and officers to each other and the Corporation, in considering transactions and agreements in respect of which directors and executive officers have an interest.

Director Nomination

Responsibility for identifying new candidates to join the Board of Directors belongs to the Policy, Governance and Nominating Committee. The Committee is responsible for identifying qualified candidates, recommending nominees for election as directors, and appointing directors to Committees. The Committee is required to consider candidate's independence, financial acumen, skills and available time to devote to the duties of the Board of Directors in making their recommendations for nomination. The Committee reviews the composition and size of the Board of Directors and tenure of directors in advance of annual general meetings when directors are most commonly elected by the Corporation's Shareholders, as well as when individual directors indicate that their terms may end or that their status may change. The Policy, Governance and Nominating Committee is comprised of the entire Board.

Compensation

The Compensation Committee annually recommends the compensation to be received by the Corporation's directors and CEO, and evaluates the proposed compensation to be received by the executive officers and management. The Compensation Committee is comprised of the entire Board. The CEO, who is also a director, does not participate in any Board of Directors discussions with regard to compensation issues that pertain to him. Compensation is determined in the context of the Corporation's goals, shareholder returns and other achievements, and considered in the context of position descriptions, goals and the performance of each individual director and officer. With respect to directors' compensation, the Compensation Committee reviews the level and form of compensation received by the directors, members of each Committee, and the Chair of the Board of Directors and each Committee, considering the duties and responsibilities of each member, his or her past service and continuing duties in service to the Corporation. The compensation of directors, the CEO, executive officers and management of competitors are considered, to the extent publicly available, in determining compensation and the Compensation Committee has the power to engage a compensation consultant or advisor to assist in determining appropriate compensation.

Director Assessment

In addition to determining compensation, the Compensation Committee is responsible for conducting an informal annual evaluation and assessment of the performance, contribution and effectiveness of individual directors and each Committee, the Board Committees of the Board of Directors and the Board of Directors as a whole. The annual review also asks directors to provide feedback on the Corporation's Mandates, the Code and all of its policies. The Compensation Committee prepares a report on the information gathered pursuant to the annual assessment, the results of which are then presented to the Board of Directors in order to engage in a discussion regarding Board effectiveness and how it may be improved.

AUDIT COMMITTEE INFORMATION

Under Multilateral Instrument 52-110 *Audit Committees*, the Corporation is required to include in its Annual Information Form ("AIF") the disclosure required under Form 52-110F1 with respect to its Audit Committee, including the text of its Audit Committee charter, the composition of the Audit Committee and the fees paid to the external auditor. The Corporation's disclosure with respect to the foregoing is contained in the section of its AIF dated March 27, 2009 entitled "Audit Committee".

ADDITIONAL INFORMATION

Additional financial information is provided in the Corporation's comparative financial statements and management discussion and analysis ("MD&A") for the year ended December 31, 2008. Copies of the Corporation's financial statements and MD&A are available on written request to the Corporation at Suite 901, 1015 Fourth Street S.W., Calgary, Alberta T2R 1J4, Attention: Chief Financial Officer. Additional information relating to the Corporation is available on SEDAR at www.sedar.com.

SCHEDULE "A"

MANDATE OF THE BOARD OF DIRECTORS OF BONTERRA OIL & GAS LTD. (THE "CORPORATION")

The primary responsibility of the Board of Directors is to supervise the management of the Corporation to ensure the long term success of the Corporation and to maximize shareholder value. Any responsibility which has not been delegated to management remains with the Board of Directors of the Corporation (the "Board").

COMPOSITION

The Board shall be composed of a minimum of three Directors and a maximum of fifteen Directors. Except as set out in the By-Laws of the Corporation, Board members will be elected at the annual meeting of the shareholders and will serve until their successors are duly appointed. A majority of the Directors will be independent. All members of the Board of Directors shall have the skills and abilities required to carry out their duties and responsibilities in the most effective manner. The Board of Directors shall endeavour to always have the right mix of experience and competencies to discharge its responsibilities.

MEETINGS

The Board of Directors shall meet at least four times yearly, and as deemed necessary in order to carry out its duties effectively. The Board of Directors shall also retain independent advice, if deemed necessary, which will be paid for by the Corporation.

DUTIES AND RESPONSIBILITIES

The Board of Directors is charged with the overall stewardship of the Corporation and manages or supervises the business of the Corporation and its management. The Board of Directors' responsibilities include:

1. Management Selection, Retention and Succession

- Select, appoint and if necessary terminate the CEO
- Approve the list of directors standing for election, as recommended by the Policy, Governance and Nominating Committee
- Review its charter annually and recommend changes to the Board of Directors when necessary
- Annually appoint directors to the following committees:
 - the Audit Committee
 - the Policy, Governance and Nominating Committee
 - the Compensation Committee

- the Reserves Committee
- the Disclosure Committee

and delegate to such committees specific responsibilities, pursuant to their respective mandate, as approved by the Board of Directors

- At the Board's discretion, appoint any other Board committees that the Board decides are needed and delegate to such committees specific responsibilities, pursuant to their respective mandate, as approved by the Board
- Approve compensation and compensation programs for senior management, as recommended by the Compensation Committee
- Assess the CEO against corporate objectives approved by the Board
- Assess, annually, the effectiveness and the performance of the Board, committees and directors in fulfilling their responsibilities
- Approve director's compensation, as recommended by the Compensation Committee

2. Strategy

- Review and approve the corporate objectives developed by the CEO
- Review, adopt and monitor the Corporation's strategic planning process
- Monitor the Corporation's performance in light of the approved strategic planning process
- Adopt, annually, a strategic planning process to maximize shareholder value

3. Corporate Ethics and Integrity

- Review and monitor the Corporation's Code of Business Conduct and disclose any waivers of the code for officers and directors
- Review and respond to potential conflict of interest situations
- Ensure policies and processes are in place for the identification of principal business risks and review and approve risk management strategies
- Approve corporate policies and other corporate protocols and controls
- Approve the Corporation's policy on public disclosure
- Review, annually, its mandate and amend as deemed necessary

4. Financial Responsibilities

 Approve the annual financial statements of the Corporation as recommended by the Audit Committee

- Approve the quarterly interim financial statements of the Corporation, as recommended by the Audit Committee
- Recommend to the shareholders the appointment of the Corporation's external auditors, as recommended by the Audit Committee
- Review and approve the Corporation's operating budget
- Review, as deemed necessary, approval authorities to the CEO and senior management
- Approve financial commitments in excess of delegated approval authorities
- Review and approve any material acquisitions, divestments, and corporate reorganizations
- Assess and approve any material securities offerings, financing or banking arrangements

TIMETABLE

The Board's work schedule will be conducted on an ongoing basis to serve the requirements of applicable regulations.









Bonterra Oil & Gas Ltd. is a high-yield, dividend paying oil and gas company headquartered in Calgary, Alberta with a proven history of growth and long term returns for investors. It recently converted to a corporation from an income trust and intends to continue with a cash dividend policy similar to the distribution policy previously followed by the trust. The monthly dividend amount will continue to be determined by commodity prices and production volumes.

Bonterra's asset base consists of stable, producing properties located mainly in the Pembina field in central Alberta and are characterized by a long reserve life and low risk, predictable returns. Bonterra's proven track record of success is due to its experienced management team, conservative capital structure and sustainable pace of development, resulting in above-average results and returns for investors.

Bonterra's common shares trade on the Toronto Stock Exchange under the symbol BNE.



MANAGEMENT'S DISCUSSION AND ANALYSIS

This report dated March 18, 2009 is a review of the operations, current financial position, and outlook for Bonterra Oil & Gas Ltd. ("Bonterra" or the "Company") and should be read in conjunction with the audited financial statements for the year ended December 31, 2008, together with the notes related thereto.

FORWARD-LOOKING INFORMATION

Certain statements contained in this Management's Discussion and Analysis (MD&A) include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; dividends; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive and are further discussed herein under the heading Business Prospects, Risks and Outlooks as well as in the Company's Annual Information Form filed on SEDAR at www.sedar.com.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived therefrom. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

ANNUAL COMPARISONS

	2008	2007	2006
Financial (\$000, except \$ per unit)			
Revenue – realized oil and gas	121,730	96,431	88,734
Cash flow from operations	69,570	51,433	51,944
Per Share/Unit Basic	4.07	3.04	3.10
Per Share/Unit Fully Diluted	4.06	3.04	3.08
Cash payments per share/unit (1)	3.12	2.64	2.82
Payout Ratio (1)	77%	87%	91%
Net Earnings	55,426	30,350	37,250
Per Share/Unit Basic	3.25	1.79	2.23
Per Share/Unit Fully Diluted	3.23	1.79	2.21
Capital Expenditures and Acquisitions	45,407	19,300	38,348
Total Assets	265,301	142,326	134,942
Working Capital Deficiency	23,878	58,766	50,187
Long-term Debt	79,910	-	-
Shareholders'/Unitholders' Equity	56,777	44,376	53,359
Operations			
Oil and Liquids (barrels per day)	3,073	3,113	3,040
Natural Gas (MCF per day)	7,637	6,627	6,014
Total BOE per day	4,346	4,218	4,042

QUARTERLY COMPARISONS

	2008				
	4th	3rd	2nd	1st	
Financial (\$000, except \$ per unit)					
Revenue – realized oil and gas sales	22,613	34,226	34,398	30,493	
Cash flow from operations	10,336	22,492	20,530	16,212	
Per Share/Unit Basic	0.59	1.31	1.21	0.96	
Per Share/Unit Fully Diluted	0.59	1.30	1.20	0.96	
Cash payments per share/unit (1)	0.62	0.96	0.84	0.70	
Payout Ratio (1)	105%	73%	69%	73%	
Net Earnings	10,585	21,125	12,912	10,804	
Per Share/Unit Basic	0.62	1.23	0.76	0.64	
Per Share/Unit Fully Diluted	0.62	1.22	0.75	0.64	
Capital Expenditures and Acquisitions	30,405	6,038	2,543	6,421	
Total Assets	265,301	150,120	153,247	150,169	
Working Capital Deficiency	23,878	47,499	57,148	57,810	
Long-term debt	79,910	_	_	-	
Unitholders' Equity	56,777	57,623	46,612	48,136	
Operations					
Oil and Liquids (barrels per day)	3,105	3,013	3,024	3,153	
Natural Gas (MCF per day)	8,892	7,233	7,272	7,139	
Total BOE per day	4,587	4,219	4,236	4,343	

	2007					
	4th	3rd	2nd	1st		
Financial (\$000, except \$ per unit)						
Revenue – realized oil and gas sales	26,573	23,794	23,462	22,602		
Cash flow from operations	13,369	11,886	13,413	12,765		
Per Unit Basic	0.79	0.70	0.79	0.76		
Per Unit Fully Diluted	0.79	0.70	0.79	0.76		
Cash payments per share/unit (1)	0.66	0.66	0.66	0.66		
Payout Ratio (1)	84%	94%	84%	87%		
Net Earnings	7,920	9,086	4,440	8,904		
Per Unit Basic	0.47	0.54	0.26	0.53		
Per Unit Fully Diluted	0.47	0.53	0.26	0.53		
Capital Expenditures and Acquisitions	7,213	2,763	1,699	7,625		
Total Assets	142,329	138,140	139,432	140,926		
Working Capital Deficiency	58,766	50,041	49,595	49,288		
Long-term debt	_	_	_	_		
Unitholders' Equity	44,218	50,820	51,920	57,646		
Operations						
Oil and Liquids (barrels per day)	3,098	3,054	3,074	3,227		
Natural Gas (MCF per day)	7,176	6,196	6,663	6,470		
Total BOE per day	4,295	4,086	4,184	4,305		

⁽¹⁾ Cash payments per share/unit are based on payments made in respect of production months within the quarter.

Disclosure Controls and Procedures

Disclosure controls and procedures (DC&P) are defined under National Instrument 52-109 - Certification of Disclosure Controls in Issuers' Annual and Interim Filings (NI 52-109) as "...controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers as appropriate to allow timely decisions regarding required disclosure." The Company has conducted a review and evaluation of its DC&P, with the conclusion that as at December 31, 2008 the Company has an effective system of DC&P as defined under NI 52-109. In reaching this conclusion, the Company recognizes that two key factors must be and are present:

- 1. the Company is very dependent upon its advisors and consultants (principally its legal counsels) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements; and
- the Company has an active Board and management with open lines of communications.

Bonterra has a small staff with varying degrees of knowledge concerning the various regulatory disclosure requirements. In many circumstances, the various regulatory requirements are relatively new, subject to interpretation, and complex. The Company is not of sufficient size to justify a separate department or one or more staff member specialists in this area. Therefore the Company must rely upon its advisors/consultants to assist it and as such they form part of the disclosure controls and procedures.

Proper disclosure necessitates that a person not only be aware of the pertinent disclosure requirements, but must also be sufficiently involved in the affairs of the Company and/or receives the communication of information to assess any necessary disclosure requirements. Accordingly, it is essential that there be proper communication among those people who manage and govern the affairs of the Company, this being the Board of Directors and senior management. The Company believes this communication exists.

While Bonterra believes it has adequate DC&P in place, lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company intends to take whatever steps it deems necessary to minimize the consequences thereof.

Internal Controls Over Financial Reporting

Internal controls over financial reporting (ICFR) are defined in NI 52-109 as "... a process designed by, or under the supervision of, an issuer's certifying officers and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's Generally Accepted Accounting Practices (GAAP) and includes those policies and procedures that:

- 1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
- 2. are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and
- 3. are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements."

The Company has conducted a review and evaluation of its ICFR, with the conclusion that as of December 31, 2008 the Company's system of ICFR as defined under NI 52-109 is adequately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework the Company used to design and evaluate its ICFR was COSO. In its evaluation, the Company identified certain material weaknesses in internal controls over financial reporting:

- 1. due to the limited number of staff at the Company, it is not feasible to achieve the complete segregation of incompatible duties; and
- 2. due to the limited number of staff, the Company relies upon third parties as participants in the Company's internal controls over financial reporting.

The Company believes these weaknesses are mitigated by: the active involvement of senior management and the board of directors in the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management, the board of directors and by the Company's auditors (annual statements only); and the establishment of a whistle-blower policy. However, these mitigating factors will not necessarily prevent a material misstatement occurring as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. A system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are met. The Company has no plans for remediating the above weaknesses.

Limitation on Scope of Design of DC&P and ICFR

The above design of DC&P and ICRF has been limited to exclude controls, policies and procedures of both Silverwing Energy Inc. (Silverwing) and operations of SRX Post Holdings (SRX) prior to the reorganization of Bonterra Energy Income Trust into the Company. The following tables summarize the information that has been included in the consolidated financial statements of the Company.

(\$000)		Silverwing
Restricted cash	\$	1,252
Future income tax benefit	Ť	18,325
Property and equipment		15,347
Working capital deficiency		(14,979)
Asset retirement obligations		(5,929)
	\$	14,016
(\$000)		SRX
Accounts receivable	\$	2,158
Prepaids	•	1,701
Accounts payable		3,859
	\$	Nil

INTERNAL CONTROL CHANGES

The Company is required to comply with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", otherwise referred to as Canadian SOX (C-Sox). The 2008 certificate requires that the Company disclose in the MD&A any changes in the Company's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting. The Company confirms that no such changes were made to the internal controls over financial reporting during 2008.

PRODUCTION

	Thr	ee months er	Twelve months ended		
	December	December September December			December
	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007
Crude oil and NGLs (barrels per day)	3,105	3,013	3,098	3,073	3,113
Natural gas (MCF per day)	8,892	7,233	7,176	7,637	6,627
Average BOE per day	4,587	4,219	4,295	4,346	4,218

Bonterra's 2008 average production increased three percent on a per BOE basis. Crude oil production decreased by approximately 1.3 percent while gas production increased by approximately 15.2 percent. The decreased crude oil production was due to the timing of Bonterra's 2008 development program in which production came on late in the year and therefore contributed little to 2008 and the 2007 property swap where the Company exchanged its predominantly Saskatchewan oil property for additional production in the Pembina area which had higher natural gas production. The natural gas increase was due to a combination of the successful 2008 development program, the acquisition of Silverwing on November 12, 2008 and the above mentioned property swap.

The Company's fourth quarter production in 2008 saw increases in crude oil (92 barrels per day) and natural gas (1,659 MCF per day) production over Q308 production due to the commencement of production from new wells drilled as well as the completion of the Silverwing acquisition. The Silverwing acquisition, which closed on November 12, 2008 added approximately 650 BOE per day, mainly natural gas. The Company's average production volume for December was approximately 4,950 BOE per day.

Bonterra's overall annual decline rate for 2008 was approximately 8.5 percent. The Company was able to more than offset this decline with its 2008 drill program. Bonterra, along with its partners, drilled 33 gross (22.9 net) Cardium oil wells. This includes 26 gross and 21.9 net Cardium wells drilled directly by the Company. Also the Company drilled 7 gross (5 net) shallow gas wells in 2008 in the Pembina field and 3 gross (2.9 net) Shaunavon oil wells. The Company also participated in one (0.1 net) Cardium natural gas well drilled by one of its partners. Bonterra recorded a 100 percent success rate with its 2008 drilling program. The majority of the wells were drilled in the fourth quarter; 14 (10.2 net) Cardium oil wells, 7 gross (5 net) shallow Pembina gas wells and all three (2.9 net) of the Shaunavon oil wells. The closing date for the Silverwing acquisition was November 12, 2008 and therefore contributed little to production rates for the full year.

As at December 31, 2008, Bonterra had only one gross (0.25 net) Cardium oil well, no natural gas wells, three gross (2.5 net) coalbed methane (CBM) wells with assigned reserves and three gross (2.9 net) Shaunavon oil wells drilled but not on production. Subsequent to December 31, 2008 and up to the date of this report, the Company has put all of its oil wells on production. The timing for the tie-in of the CBM wells has not yet been determined.

REVENUE

	Three months ended			Twelve months ended		
	December	September	December	December	December	
(Cdn \$)	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007	
Revenue – oil and gas sales (000's) - cash	22,613	34,226	26,573	121,730	96,431	
Average Realized Prices:						
Crude oil and NGLs (per barrel)	58.91	103.36	77.60	87.54	70.31	
Natural gas (per MCF)	7.00	8.20	6.70	8.21	6.75	

Revenue from petroleum and natural gas sales increased 26 percent in 2008 compared to 2007 due to increased production volumes and an increase in the average price received for crude oil, natural gas liquids and natural gas. The fourth quarter of 2008 saw a substantial decrease in realized revenues over the third quarter of 2008 due to the significant decrease in commodity prices.

Included in revenue is a risk management loss of \$7,353,000 (2007 - gain of \$621,000) due to lower prices received as a result of commodity risk management agreements. The Company may continue to hedge future production to assist in managing its cash flow. As at December 31, 2008, the Company had no outstanding risk management agreements. The value of the outstanding commodity hedging contracts as of December 31, 2007 was a net liability of \$3,085,000.

ROYALTIES

	Thi	Three months ended			nths ended
	December	September	December	December	December
(\$ 000)	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007
Crown royalties	2,337	3,523	2,634	13,736	9,209
Freehold royalties, gross overriding					
royalties and net carried interests	558	1,134	682	3,479	3,235
Total royalty expense	2,895	4,657	3,316	17,215	12,444

Royalties paid by the Company consist primarily of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. The majority of the Company's wells are low productivity wells and therefore have low Crown royalty rates. The Company's average Crown royalty rate was approximately 10.6 percent (2007 – 10 percent) and approximately 2.7 percent (2007 – 3 percent) for other royalties before hedging adjustments.

During 2007, the Company was advised by the owner of a gross overriding royalty that a production limit was attained that resulted in an additional gross overriding royalty in respect of certain of its Cardium oil wells. The production limit was triggered by a calculation on a multitude of Cardium wells including many that were not owned by the Company. In addition the exact wells that the production limit was applicable to was not readily known by the Company nor easily determined. In discussions with the payee it was determined that the production limit was reached in late 2005. The royalty was calculated based on this agreed date and the affected wells for the Company and other operators in the area were identified. The approximate amount of the adjustment, net to the Company was \$570,000 for periods prior to January 1, 2007. This amount has been included in the 2007 royalty numbers.

Also in 2007 the Company was informed by the operator of its former Dodsland property that it had not been charged a net profit royalty for the years 2004, 2005 and 2006. In reviewing the agreements it was confirmed the claim was accurate and an amount of approximately \$150,000 was paid by the Company in 2007 for the net profit royalty. This was also expensed in 2007.

New Alberta Crown Royalty Framework (NRF)

Royalty rates in the fourth quarter averaged approximately 13.4 percent; slightly higher than preceding quarters. The NRF rates vary by prices as well as productivity levels. With the current low prices the new royalty rates should result in a significant reduction in the amount the Company will pay to the Province of Alberta. This combined with the Silvering acquisition (mostly BC production with lower Crown royalty rates) should result in a lower average Crown royalty rate for the Company in 2009.

The effect of the NRF on the Company's oil and liquid reserves was a reduction of 77,200 barrels for proved and a reduction of 132,800 barrels for proved plus probable reserves. For natural gas, the NRF accounted for a reduction of 56,500 MCF for proved and 128,800 MCF for proved plus probable reserves. On a BOE basis, this reduction represented approximately 0.6 percent of the Company gross reserves on a proved plus probable basis.

PRODUCTION COSTS

	Three months ended			Twelve months ended	
	December	December September December			December
(\$ 000)	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007
Production costs	6,859	6,148	5,535	25,413	24,073
\$ per BOE	16.25	15.84	14.01	15.98	15.64

Barrels of oil equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation. Operating costs on the Company's newly acquired British Columbia (BC) properties as well as on the newly drilled wells are lower on a BOE basis than on its older low productivity wells and this may result in lower operating costs per BOE in the future.

Operating costs increased slightly in the fourth quarter of 2008 compared to the prior quarter due primarily to the acquisition of Silverwing and from new wells put on production in the fourth quarter of 2008 and large industry wide increases for oilfield services especially for oil producing properties. Average production costs per BOE increased marginally in Q408 compared with the previous quarter due mainly to winterization programs performed on the Company's wells and facilities.

As discussed above, Bonterra's production comes primarily from low productivity wells. These wells generally result in higher operating costs on a per unit-of-production basis as costs such as municipal taxes, surface leases, power and personnel costs are not variable with production volumes. The Company is continually examining ways to reduce operating costs.

With the acquisition of Silverwing and the Company's recent drilling success and expected declines in oilfield service costs, the Company anticipates operating costs in the \$14 to \$15 per BOE range for 2009. The higher operating costs for the Company are substantially offset by lower royalty rates and results in higher cash net backs on a combined basis despite higher than average operating costs.

GENERAL AND ADMINISTRATIVE EXPENSE

	Three months ended			Twelve months ended		
	December	September	December	December	December	
(\$ 000)	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007	
G&A Expense	824	845	739	3,401	2,603	
\$ per BOE	1.95	2.18	1.69	2.14	1.69	

General and administrative (G&A) expenses increased 31 percent in 2008 compared to 2007. The Company provides administrative services to Comaplex Minerals Corp. (Comaplex) and Pine Cliff Energy Ltd. (Pine Cliff), companies that share common directors and management. Please refer to discussion under Related Party Transactions for details.

The Company's only significant general and administrative costs are employee compensation and professional services such as legal, engineering and accounting. Employee compensation expense increased by approximately 29 percent (\$856,000). The increase is due primarily to the Company's bonus plan which resulted in additional employee compensation of \$610,000 (20.7 percent) with the remainder due to increased staffing levels (3.8 percent) and 2008 salary increases (4.5 percent). The Company's bonus plan consists of cash payments equal to three percent of before tax net earnings to be paid to employees and key consultants based on performance throughout the year.

Costs associated with professional services increased by approximately \$90,000. Increases in other general and administrative areas have been offset by increased administration recovery charges to capital programs.

The quarter over quarter decrease was primarily due to a lower bonus accrual but was almost fully offset by increased professional fees related to the internal control review and costs related to managing the integration of the Silverwing acquisition and reorganization.

INTEREST EXPENSE

	Three months ended			Twelve months ended		
	December September December			December	December	
(\$ 000)	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007	
Interest Expense	746	545	878	2,740	3,028	

The decrease in interest expense in 2008 as compared to 2007 was due to much lower borrowing costs, offset partially by increased loan balances resulting from the Company's acquisition of Silverwing and its reorganization. Interest rates during the year on the outstanding debt averaged approximately 4.5 percent (2007 - 5.9 percent). The Company maintained an average outstanding debt balance of approximately \$60,600,000 (2007 - \$51,600,000). Total debt (including negative working capital) as of December 31, 2008 represents approximately 17.9 months of 2008 annual cash flow from operations or 30.1 months based on annualized 2008 fourth quarter cash flow from operations. The ratio of bank debt only as of December 31, 2008 based on the annualized 2008 Q4 base was 27.1 months. Also in the fourth quarter of 2008 the Company had one time reorganization costs of approximately \$1,369,000 reducing cash flow to \$10,336,000 from approximately \$11,700,000. This one item has significant implications on the ratio of bank debt to cash flow and would reduce the Q4 numbers of 30.1 to 26.6 and 27.1 to 23.9 months.

During the year the Company acquired Silverwing a public oil and gas producer for cash consideration including negative working capital of \$28,995,000. In addition, the Trust underwent a reorganization resulting in a cash outlay of \$11,257,000 plus reorganization costs of \$2,121,000. The Company also experienced a decrease in cash flow due to the rather significant drop in commodity prices during the final four months of 2008.

The Company ended 2008 with a debt to cash flow ratio that is higher than usual even though it is in a range that is normal with its peers at the present time. The main reason for the higher debt level is that early in the third quarter of 2008, when the Company announced its reorganization and Silverwing acquisition, it had share options outstanding that were well in the money for approximately \$25 million. At closing of the reorganization on November 12, 2008, the world economy had changed substantially resulting in large reductions in share prices, including Bonterra's and the majority of the outstanding options not being exercised. The debt level is still very manageable for Bonterra but plans for 2009 are to reduce the debt to equity ratio that presently exceeds 2:1.

Bank debt at December 31, 2008 was \$93,235,000 (December 31, 2007 - \$57,422,000). The Company's banking arrangements allow it to use Bankers Acceptances (BA's) as part of its loan facility. Interest charges on BA's are generally one half percent lower than that charged on the general loan account. The interest rate on the credit facilities is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V	Level VI
Consolidated Total Funded Debt ⁽¹⁾ to Consolidated Cash flow Ratio	Below 0.50:1			Over 1.5:1 to 2.0:1		Over 2.5:1
Canadian Prime Rate Plus Bankers' Acceptances Rate Plus	50 150	75 175	85 185	100 200	125 225	150 250

(1) Consolidated total funded debt excludes related party amounts but includes working capital.

Consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the third month following the end of each fiscal quarter, except for the end of a fiscal year in respect of which the adjustment shall be made effective as of the first day of the fifth month following the end of such fiscal year, with each such adjustment to be effective until the next such adjustment.

REORGANIZATION COSTS

Based on current accounting rules, costs associated with the Trust's reorganization into Bonterra Oil and Gas Ltd. must be expensed. The costs consist of a \$1,000,000 finders fee paid to a company that facilitated the reorganization, \$931,000 of professional fees, \$150,000 stock exchange fees and \$40,000 of costs associated with the distribution of the reorganization document. These costs are all one time costs and no further costs are anticipated by the Company in direct relation to the reorganization. Of these total costs of \$2,121,000, the Company expensed \$1,369,000 in the fourth quarter of 2008 and \$752,000 was expensed in the third quarter of 2008.

STOCK-BASED COMPENSATION

Stock-based compensation is a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Due to the reorganization, all existing employee unit options vested and were either exercised or were cancelled. This resulted in approximately an additional \$195,000 of stock-based compensation being recorded in the fourth quarter on the automatic vesting of outstanding options. Also the Company issued 1,390,500 stock options during 2008 resulting in a further expense of \$97,000.

The 1,390,500 common share options were issued at the end of November 2008 with an exercise price of \$20.50 per share and a fair value of \$1.11 per option. The fair value of the options granted has been estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 2.2 percent (2007 - 4.7 percent), expected weighted average volatility of 31 percent (2007 - 27 percent), expected weighted average life of 3.5 years (2007 - 2.3 years) and an annual dividend/distribution rate based on the dividends paid to the Shareholders/Unitholders during the year. The future stock-based compensation impact of these options is approximately \$225,000 per quarter over the next four quarters.

DEPLETION, DEPRECIATION, ACCRETION AND DRY HOLE COSTS

The Company follows the successful efforts method of accounting for petroleum and natural gas exploration and development costs. Under this method, the costs associated with dry holes are charged to operations. For intangible capital costs that result in the addition of reserves, the Company depletes its oil and natural gas intangible assets using the unit-of-production basis by field.

For tangible assets such as well equipment, a life span of ten years is estimated and the related tangible costs are depreciated at one tenth of original cost per year. The use of a ten year life span instead of calculating depreciation over the life of reserves was determined to be more representative of actual costs of tangible property. Given the Company's long production life, wells generally require replacement of tangible assets more than once during their life time. Most of the Company's wells have been producing since the 1960's and are expected to continue to produce for at least another twenty years.

Provisions are made for asset retirement obligations through the recognition of the fair value of obligations associated with the retirement of tangible long-life assets being recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the liability through accretion charges which are included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset.

At December 31, 2008, the estimated total undiscounted amount required to settle the asset retirement obligations was \$58,903,000 (2007 - \$54,622,000). Of the \$4,281,000 increase, the majority is due to the Silverwing acquisition.

These obligations will be settled based on the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent. The discount rate is reviewed annually and adjusted if considered necessary. A change in the rate would have a significant impact on the amount recorded for asset retirement obligations. Based on the current provision, a one percent increase in the risk adjusted rate would decrease the asset retirement obligation by \$2,706,000. While a one percent decrease in the risk adjusted rate would increase the asset retirement obligation by \$3,639,000.

The above calculation requires an estimation of the amount of the Company's petroleum reserves by field. This figure is calculated annually by an independent engineering firm and is used to calculate depletion. This calculation is to a large extent subjective. Reserve adjustments are affected by economic assumptions as well as estimates of petroleum products in place and methods of recovering those reserves. To the extent reserves are increased or decreased, depletion costs will vary.

For the fiscal year ending December 31, 2008, the Company expensed \$14,749,000 (2007 - \$16,675,000) for the above-described items including \$Nil (2007 - \$3,078,000) for dry hole costs. During 2007 the Company wrote off all costs related to eight wells which no reserves were attributed by the independent third party engineers.

The Company continues to have relatively low finding and development costs (see discussion under Finding and Development Costs). Based on year end reserves, the Company's average cost of proved reserves is \$6.40 (2007 - \$5.84) per BOE.

The Company currently has an estimated reserve life for its proved developed producing reserves of 12.5 (2007 – 11.3) years calculated using the Company's gross reserves (prior to allowance for royalties) based on the third party engineering report dated December 31, 2008 and using fourth guarter 2008 average production rates of 4,587 BOE per day (2007 – 4,295 BOE per day). Based on total proved reserves the Company has a 14.4 (2007 – 13.7) year reserve life and if proved and probable are used the reserve life increases to 18.7 (2007 – 17.4) years. These figures are some of the longest reserve life indexes (excluding oil sands) in the Canadian oil and gas industry.

INCOME TAXES

On November 12, 2008, Bonterra Energy Income Trust converted to a corporation. Due to the conversion and the acquisition of Silverwing, the Company increased its usable tax pools to approximately \$468,000,000 (see below). As a result of the reorganization, the Company has recorded a future income tax asset and a corresponding deferred tax credit. These amounts will be amortized into future tax expense as the associated tax pools are consumed.

The current tax provision relates to resource surcharge payable by the Company to the Province of Saskatchewan. The surcharge is calculated as a flat percent of revenues generated from the sale of petroleum products produced in Saskatchewan. The provincial government of Saskatchewan reduced the resource surcharge rate from 3.1 percent to 3.0 percent on July 1, 2008.

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate o	of Util	ization
(\$000)	%		Amount
Undepreciated capital costs	20-100	\$	23,696
Eligible capital expenditures	7		1,870
Share issue costs	20		4,581
Canadian oil and gas property expenditures	10		25,072
Canadian development expenditures	30		50,743
Canadian exploration expenditures	100		10,530
SR&ED expenditures	100		80,357
Income tax losses carried forward (1)	100		271,029
		\$	467,878

⁽¹⁾ Income tax losses carried forward expire in the following years; 2014 - \$1,069,000, 2025 - \$3,179,000, 2026 - \$109,244,000, 2027 - \$116,787,000, 2028 - \$40,750,000.

Prior to becoming a corporation, the Trust paid nine distributions for the 2008 tax year. The Canadian tax breakdown of those distributions is as follows:

	Percentage
Taxable Income (Other Income)	85.16
Return of Capital	14.84
	100.00

With respect to cash distributions paid during the year to U.S. individual unitholders, 17.71 percent should be reported as a return of capital (to the extent of the Unitholder's U.S. tax basis in their respective units) and 82.29 percent should be reported as qualified dividends.

NET EARNINGS

	Thr	ee months er	Twelve months ended		
	December	September	December	December	December
(\$ 000)	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007
Net Earnings	10,585	21,125	8,372	55,426	30,350

Bonterra's net earnings for the year ended December 31, 2008 represents an 82 percent increase over the Company's 2007 net earnings. The Company recorded net earnings per share on a fully diluted basis in 2008 of \$3.23 verses \$1.79 in the 2007 year. This represents a return on Shareholders' equity of approximately 97.6 percent (2007 – 68.6 percent) based on year end Shareholders' equity.

Strong crude oil and natural gas prices for most of 2008 along with a three percent increase in production volumes were driving factors behind the increased profit. However, during the fourth quarter and continuing into the first quarter and likely beyond, commodity prices have plunged to under \$40 U.S. (\$50 Cdn). This along with natural gas prices in the \$4 to \$5 dollar range will significantly reduce the Company's future net earnings. The Company's low capital costs combined with the Company's low production decline rates should allow for continued positive earnings even in the above mentioned price environment.

COMPREHENSIVE INCOME

On January 1, 2007, Bonterra became obliged to adopt the new accounting standards regarding the accounting for financial instruments. On adoption, the Company increased its investment in related party by \$1,836,000 for the fair value of this investment. On January 1, 2007, Bonterra further recognized a current asset of \$1,189,000 for the fair value of its commodity derivative contracts. These adjustments resulted in a further increase in the future income tax liability and accumulated other comprehensive income of \$645,000 and \$2,380,000, respectively.

Other comprehensive income for 2008 consists of an unrealized loss on investment in a related party of \$1,611,000 (2007 gain of \$1,465,000) including a fourth guarter loss of \$1,123,000 relating to a reduction in the related company's fair value. Effective October 1, 2007, the Company discontinued the use of hedge accounting due to the difficulty in determining the effective portion of the commodity risk management contracts.

CASH FLOW FROM OPERATIONS

	Thr	ee months er	Twelve months ende			
	December	September	December	December	December	
(\$ 000)	31, 2008	30, 2008	31, 2007	31, 2008	31, 2007	
Cash flow from operations	10,336	22,492	13,369	69,570	51,433	

Cash flow from operations increased 35 percent year over year, mainly due to increased commodity prices received during the first nine months of 2008. The fourth quarter of 2008 saw significant price declines in all commodity categories. Although the Company was able to increase production in the fourth quarter of 2008 by almost nine percent over the previous quarter, cash flow from operations decreased approximately 54 percent. One time costs of \$1,369,000 incurred in Q4 (Q3 - \$752,000) related to the reorganization also contributed to the decline.

With the continuing depressed crude oil and natural gas prices, cash flow for 2009 is expected to be significantly negatively affected. The price declines are expected to be partially offset by anticipated production volumes in excess of 5,000 BOE per day for 2009, and anticipated decreases in G&A costs (lower employee compensation) and in corporate resource surcharge (tax on revenues). Also, Bonterra does not expect any further costs associated with the acquisition of Silverwing or the reorganization.

CASH NETBACKS

The following table illustrates the Company's cash netback:

\$ per Barrel of Oil Equivalent (BOE)	2008	2007
Production volumes (BOE)	1,590,666	1,539,461
Gross production revenue	\$ 81.15	\$ 62.24
Realized gain (loss) on risk management contracts	(4.62)	0.40
Royalties	(10.82)	(8.08)
Field operating	(15.98)	(15.64)
Field netback	49.73	38.92
General and administrative	(2.14)	(1.69)
Interest and taxes	(2.00)	(2.30)
Cash netback .	\$ 45.59	\$ 34.93

The following table illustrates the Company's cash netback for the three months ended:

\$ per Barrel of Oil Equivalent (BOE)	D	ecember 31, 2008	Se	otember 30, 2008
Production volumes (BOE)		422,008		395,962
Gross production revenue	\$	51.27	\$	95.80
Realized gain (loss) on risk management contracts		2.31		(7.60)
Royalties		(6.86)		(12.00)
Field operating		(16.25)		(15.84)
Field netback		30.47		60.36
General and administrative		(1.95)		(2.18)
Interest and taxes		(1.90)		(1.73)
Cash netback	\$	26.62	\$	56.45

FINDING AND DEVELOPMENT COSTS (F&D COSTS)

The Company has been active in its capital development program over the past three years. Over this time period Bonterra has incurred the following F&D Costs:

	2008	F&D	2007 F	&D	2006 F	&D		2008		2007
	Costs	per	Costs	per	Costs	per	Th	ree Year	T	hree Year
	BOI	E (1)(2)	ВОЕ	(1)(2)	BOE	(1)(2)		Average		Average
Proved Reserve Additions	\$	8.67	\$:	2.74	\$ 25	5.51	\$	12.30	\$	14.37
Proved plus Probable Reserve Additions	\$	7.47	\$ 2	2.68	\$ 18	3.21	\$	9.45	\$	11.07

The above figures have been calculated in accordance with National Instrument 51-101 (NI 51-101) where the F&D Costs equate to the total exploration and development costs incurred by the Company during the year plus the yearly change in estimated future development costs as calculated by Sproule Associates Limited. The following precautionary notes have been provided as required by NI 51-101.

- (1) Barrels of Oil Equivalent may be misleading, particularly if used in isolation. A BOE conversion ratio of 6MCF:1bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
- (2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

Results from the Company's Cardium oil drilling program continue to be better than anticipated resulting in an increase in the third party engineering reports estimated recoverable reserves from existing wells but also from future development. Continued low decline rates have also resulted in increased reserves due to technical revisions. Both these factors contributed to an overall F&D cost in 2008 of \$7.47 per BOE on a proved plus probable basis.

RELATED PARTY TRANSACTIONS

The Company holds 689,682 (2007 - 689,682) common shares in Comaplex which have a fair market value as of December 31, 2008 of \$2,131,000 (2007 - \$4,014,000). Comaplex is a publically traded mineral company on the Toronto Stock Exchange. The Company's ownership in Comaplex represents approximately 1.3 percent of the issued and outstanding common shares of Comaplex. The Company has common directors and management with Comaplex.

Comaplex paid a management fee to the Company of \$330,000 (2007 - \$300,000). Comaplex also shares office rental costs and reimburses the Company for costs related to employee benefits and office materials. In addition, Comaplex owns 204,633 (December 31, 2007 – 204,633) common shares in the Company. Services provided by the Company include executive services (president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. At December 31, 2008, Comaplex owed the Company \$56,000 (December 31, 2007 - \$63,000).

In order to facilitate the acquisition of Silverwing, the Company borrowed on a short-term basis \$20,000,000 from Comaplex to allow time to finalize documentation for its new bank line of credit. The funds were repaid on November 21, 2008. Total interest paid on the loan was \$21,000.

The Company also has a management agreement with Pine Cliff. Pine Cliff has common directors and management with the Company. Pine Cliff trades on the TSX Venture Exchange. Pine Cliff paid a management fee to the Company of \$238,000 (2007 - \$216,000). Services provided by the Company include executive services (president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. The Company has no share ownership in Pine Cliff. As at December 31, 2008 the Company had an account receivable from Pine Cliff of \$1,000 (December 31, 2007 – \$4,000).

As of December 31, 2008, the Company's CEO and major shareholder had loaned the Company \$6,000,000. The loan is unsecured, bears interest at Canadian chartered bank prime less one half of a percent and has no set repayment terms. The loan can only be repaid should the Company have sufficient available borrowing limits within its bank debt. Interest paid on this loan during 2008 was \$7,000.

COMMITMENTS

The Company has no contractual obligations that last more than a year other than its office lease agreements which are

Contract Obligations		Less than	1-3	4-5
(\$000)	Total	1 year	years	years
Office leases (1)	\$ 2,907	\$ 589 \$	1,238	\$ 1,080

(1) Includes Silverwing's former office space which is being sublet at a rate that approximates the rates charged to the Company. The funds received on the sublease have not been offset against the contractual liability.

FINANCIAL REPORTING UPDATE

During 2007, the Company completed the implementation of the new CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, Section 1530, Comprehensive Income and Section 3865, Hedges that deal with the recognition and measurement of financial instruments at fair value and comprehensive income. See Notes 2 and 14 in the Notes to the audited Consolidated Financial Statements for further details.

Accounting Changes

During 2008, the Company adopted Section 1535 "Capital Disclosures", Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation". All the above Sections were required to be adopted for fiscal years beginning on or after October 1, 2007. As a result, the Company has added Note 16 providing the required disclosures regarding the Company's objectives, policies and processes for managing capital and the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

Future Accounting Changes

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company plans to adopt this standard prospectively effective January 1, 2009 and does not expect the adoption of this statement to have a material impact on the Company's results of operations or financial position.

In January 2009, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company plans to adopt these standards effective January 1, 2009 and does not expect the adoption will have a material impact on the results of operations or financial position.

International Financial Reporting Standards (IFRS)

The Accounting Standards Board (AcSB) has announced that Canadian GAAP, as we currently know them, will cease to exist for all Publicly Accountable Entities (PAE's) as of January 1, 2011. From that point onward the Company will be required to account for and report under IFRS.

Although the International Accounting Standards Board (IASB) intends to revise several standards between now and 2011, IFRS will be adopted in Canada utilizing a "big bang" approach, with the exception of some Canadian GAAP changes that have occurred or will occur in periods leading up to the transition date.

The IASB has undertaken a number of projects, many being joint projects with the Financial Accounting Standards Board in the U.S., that may significantly change existing international standards.

This degree of activity currently being undertaken by the standard setters makes the convergence from Canadian GAAP to IFRS a moving target. Due to these likely changes, careful monitoring of developments will be required in order to understand fully the accounting and business implications of the new requirements.

The Company in the fourth quarter of 2008 has commenced the process of conversion to IFRS by engaging its external auditors to perform a preliminary high-level scoping study to consider the potential impact of the implementation of IFRS on the Company. Based on the findings to date the following areas have been identified as high impact areas:

- IFRS 1 First time adoption of IFRS
- IFRS 3 Business combinations
- IAS 16 Property and equipment
- IAS 36 Impairment of assets

Medium impact areas include:

- IFRS 6 Exploration and evaluation of mineral resources
- IFRS 2 Share-based payments
- IAS 1 Presentation of financial statements
- IAS 10 Events after the balance sheet date
- IAS 12 Income Taxes
- IAS 18 Revenues
- IAS 23 Borrowing costs
- IAS 39 Financial instruments, recognition and measurement
- IAS 37 Provisions, contingent liabilities and contingent assets

The impact of IFRS will be significant; however the Company has always maintained an accounting policy of successful efforts for property and equipment that will result in a major reduction in the level of conversion compared to most oil and gas companies who used the full cost accounting policy.

Over the course of 2009, the Company will be completing a more detailed analysis of the above areas and making decisions in respect of accounting policies that will be followed in respect of the above identified areas, documenting those policies, and calculating the impact of those policies on existing financial statement items and presentations.

The Company has recently implemented a new financial accounting system that provides for sufficient detail to comply with the IFRS requirements. As the Company has been using successful efforts since its inception, detail at a well level has been maintained under its past and current financial accounting systems as well as procedures are in place to capture this information at the operational level.

Implications to the Company's controls for DC&P and ICFR are being reviewed; however the Company believes that the majority of the procedures in place will apply once IFRS is implemented. Training will be required and is ongoing. Individuals within the Company have been and will continue to attend courses, seminars and other training activities to ensure the Company is adequately prepared for IFRS. Use of external legal expertise will be used to ensure compliance is maintained with all contractual agreements.

LIQUIDITY AND CAPITAL RESOURCES

During 2008, Bonterra participated in drilling 44 gross wells (30.9 net) at a total cost of \$29,466,000. Included in the above figure is approximately \$1,200,000 of costs associated with the completion and tie-in of wells the Company drilled in 2007 and prior years. As discussed in the Production section, only four gross oil wells (3.2 net) were not on production by December 31, 2008. These wells have subsequently been placed on production at a capital cost of less than \$1,000,000 being spent in 2009.

The Company currently has plans to drill approximately 30 gross (18 net) oil and gas wells in 2009 at an estimated budget figure of \$15,000,000. The current plan, if Alberta suitably adjusts its royalty structure, includes 18 gross (14 net) Cardium vertical oil wells and two gross (0.65 net) Cardium horizontal oil wells. The balance of the drilling is anticipated to consist of wells in BC and Saskatchewan. The majority of the drilling is anticipated to occur during the third and fourth quarters due in part to the Company's position that it is prudent to wait for the Alberta government to disclose its incentive programs and potential modifications to its high royalty rates so that Alberta will be competitive for certain types of wells.

Bonterra anticipates funding the 2009 capital program out of cash flow and if necessary an increase in the Company's line of credit. Should the need arise, the Company is prepared to raise sufficient equity to complete its planned capital expenditures. However, the current capital budget is predicated on commodity prices recovering to above \$50 U.S. for crude oil and \$6 per MCF for natural gas and an \$0.82 dollar for the last six months of 2009.

Bonterra is continuing with its efforts to acquire producing and non producing properties through either property or entity acquisitions. Funding for any acquisition would depend on items such as the type of acquisition, quality of the assets, size of the purchase and Bonterra's trading price at the time of the acquisition.

Due to the corporate reorganization and acquisition of Silverwing, the Company amended its bank facility to consist of an \$80,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated demand credit facility (December 31, 2007 - \$69,900,000) (non-syndicated demand facility). The terms of the syndicated revolving credit facility provide that the loan is revolving to May 30, 2010 and is subject to annual review. The revolving credit facility has no fixed payment requirements. The terms of the non-syndicated demand credit facility provide that the loan is due on demand and is subject to annual review and has no fixed repayment terms.

At December 31, 2008 the Company had bank debt of \$93,235,000 (2007 - \$57,422,000). For the interest rates charged on the facilities please refer to the Interest Expense section of this MD&A.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling \$525,000 (December 31, 2007 - \$355,000) were issued at December 31, 2008. Of the letters of credit, \$20,000 is secured by a restricted term deposit. Security for the credit facilities consists of various fixed and floating demand debentures totaling \$200,000,000 over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

The facility contains few covenants due to the substantial asset value (see review of operations) of the Company's assets and the long business relationship established by the Company with its principal banker.

The following is a list of the material covenants:

- The Company as of December 31, 2008 is required to not exceed \$100,000,000 in consolidated debt (includes negative working capital but excludes debt to related parties).
- Dividends paid in any quarter shall not exceed 80 percent of the average previous four quarters cash flow as defined under GAAP.

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

(\$000)	200	8	2007		
Issued	Number	Amount	Number	Amount	
Common Shares					
Balance, beginning of year	- \$	_	- \$	_	
Issued on reorganization to a corporation	17,257,603	99,530		_	
Balance, end of year	17,257,603 \$	99,530	- \$	_	
(\$000)	20	08	2007		
Issued	Number	Amount	Number	Amount	
Trust Units					
Balance, beginning of year	16,928,158 \$	90.590	16,874,658 \$	89,488	
Transfer of contributed surplus to unit capital		805	_	109	
Issued pursuant to Trust unit option plan	321,700	7,935	53,500	993	
Issued on acquisition of Silverwing	7,745	200	· -	_	
Cancelled on conversion to a corporation	(17,257,603)	(99,530)	-	_	
Balance, end of year	- \$	_	16,928,158 \$	90,590	

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,725,760 common shares (2007 – 1,692,800 Trust Units). The exercise price of each option granted equals the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of December 31, 2008 and changes during the year is presented below:

	2008		
	Options	Weighted- Average Exercise Price	
Outstanding at beginning of year Options granted	1,390,500	\$ – 20.50	
Outstanding at end of year	1,390,500	\$ 20.50	
Options exercisable at end of year	0000	\$ -	

The following table summarizes information about common stock options outstanding at December 31, 2008:

			Options	Exercisable ·			
Range of Exercise Prices	Number Oustanding At 12/31/08	Weighted-Average Remaining Contractual Life	Weighted Exerc	-Average cise Price	Number Exercisable At 12/31/08	Weighted-Avera Exercise Pri	_
\$20.50	1,390,500	3.9 years	\$	20.50	_	\$	

A summary of the former unit option plan as of December 31, 2008 and 2007, and changes during the years is presented below:

	2	800	2007			
	Options	Weighted- Average Exercise Price	Options	Weighted- Average Exercise Price		
Outstanding at beginning of year Options granted Options exercised Options cancelled	1,177,000 \$ 29,000 (321,700) (884,300)	27.59 39.09 24.66 29.03	721,500 553,000 (53,500) (44,000)	\$ 26.55 28.11 18.56 27.92		
Outstanding at end of year	- \$	_	1,177,000	\$ 27.59		
Options exercisable at end of year	- \$	_	530,000	\$ 26.63		

BUSINESS PROSPECTS, RISKS, AND OUTLOOKS

The resource industry operates with a great deal of risk. The most significant risks may come from oil and natural gas price swings, the uncertainty of finding new reserves from drilling programs or acquisitions, competition within the industry and increasing environmental controls and regulations. The prices received for crude oil are established by world market forces and for natural gas by forces within North America. Fluctuations in pricing can have extremely positive or negative effects on the Company's cash flow or in the value of its producing and non-producing oil and natural gas properties.

The Company presently attempts to minimize these risks by pursuing both oil and natural gas activities and operates its oil and natural gas interests in areas which have long life reserves, where it has the technical expertise to enhance production, control operating costs and to increase margins of profit.

SENSITIVITY ANALYSIS

Sensitivity analysis, as estimated for 2009:

	Cash Flow	Cash Flow Per Share
	Cash Flow	rer Share
U.S. \$1.00 per barrel	\$ 870,000 \$	0.050
Canadian \$0.10 per MCF	\$ 289,000 \$	0.017
Change of Canadian \$0.01/U.S. \$ exchange rate	\$ 593,000 \$	0.034

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on www.sedar.com as well as on the Company's website at www.bonterraenergy.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Deloitte & Touche LLP has been appointed by the Shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditors' report. The audit committee has reviewed these financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this annual report.

GEORGE F. FINK CEO

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March 11, 2009

GARTH E. SCHULTZ Vice President, Finance and CFO March 11, 2009

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BONTERRA OIL & GAS LTD. 19

AUDITORS' REPORT

To the Shareholders of Bonterra Oil & Gas Ltd. (formerly Bonterra Energy Income Trust):

We have audited the consolidated balance sheets of Bonterra Oil & Gas Ltd. as at December 31, 2008 and 2007 and the consolidated statements of shareholders' equity, operations and deficit, comprehensive income and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Dolaitte Janhe LLP

Calgary, Alberta March 11, 2009

CONSOLIDATED BALANCE SHEETS

As at December 31				
(\$000)		2008		2007
ASSETS				
Current				
Restricted term deposit (Note 10)	\$	20	\$	_
Accounts receivable (Notes 4 & 15)		11,753		10,575
Crude oil inventory		845		792
Prepaid expenses (Note 4)		4,222		1,462
Future income tax asset (Note 11)		2,669		913
Investment in related party (Note 6)		2,131		4,014
		21,640		17,756
Restricted cash (Note 7)		1,252		_
Future income tax asset (Note 11)		85,416		_
Property and Equipment (Note 8)				
Petroleum and natural gas properties and related equipment		232,685		187,288
Accumulated depletion and depreciation		(75,692)		(61,805)
		156,993		125,483
	\$	265,301	\$	143,239
LIABILITIES				
Current	_		^	2704
Distribution payable	\$		\$	3,724
Accounts payable and accrued liabilities (Note 4)		23,888		12,291
Derivative liability (Note 16)		- 000		3,085
Due to related party (Note 9)		6,000		_
Deferred credit (Note 11)		2,305		E7 400
Short-term bank debt (Note 10)		13,325		57,422
		45,518		76,522
Long-term bank debt (Note 10)		79,910		7 505
Future income tax liability (Note 11)		(4.750		7,595
Deferred credit (Note 11)		64,758		14.004
Asset retirement obligations (Note 12)		18,338		14,904
		208,524		99,021
Commitments, Contingencies and Guarantees (Note 17)				
SHAREHOLDERS' EQUITY (Note 13)		00 500		
Share capital		99,530		- 00 500
Unit capital		0.540		90,590
Contributed surplus		2,542		2,140
		102,072		92,730
Deficit		(46,715)		(51,543)
Accumulated other comprehensive income (Note 14)		1,420		3,031
		(45,295)		(48,512)
Total Shareholders' Equity		56,777		44,218
	\$	265,301	\$	143,239

On behalf of the Board:

Director

Director

Jew mul

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31		
(\$000)	2008	2007
Unitholders' equity, beginning of year	\$ 44,218 \$	53,359
Comprehensive income for the year	53,815	31,001
Adjustment of opening accumulated other		
comprehensive income	-	2,380
Net capital contributions (Note 13)	8,135	993
Stock-based compensation	1,207	1,133
Distributions declared	(42,660)	(44,648)
Unitholders' Equity	64,715	44,218
Conversion of the Trust to a Corporation (Note 4)	_	(44,218)
Dividends declared	(7,938)	_
Shareholders' Equity, End of Year	\$ 56,777 \$	_

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the Years Ended December 31			
(\$000)		2008	2007
Revenue			
Oil and gas sales	\$ 1	29,083 \$	95,810
Gain (loss) on risk management contracts - cash		(7,353)	621
Gain (loss) on risk management contracts - non-cash		3,085	(3,085)
Royalties Interest and other	(17,215)	(12,444)
Interest and other		45	44
	1	07,645	80,946
Expenses			
Production costs		25,413	24,073
General and administrative		3,401	2,603
Interest on debt		2,740	3,028
Reorganization costs (Note 4)		2,121	_
Stock-based compensation		1,207	1,133
Dry hole costs		-	3,078
Depletion, depreciation and accretion		14,749	13,597
		49,631	47,512
Earnings Before Taxes		58,014	33,434
Taxes (Note 11)			
Current		437	512
Future		2,151	2,572
		2,588	3,084
Net Earnings for the Year		55,426	30,350
Deficit, beginning of year	(51,543)	(37,245)
Distributions declared	(42,660)	(44,648)
Dividends declared		(7,938)	_
Deficit, end of year	\$ (46,715) \$	(51,543)
Net Earnings Per Share – Basic (Note 13)	\$	3.25 \$	1.79
Net Earnings Per Share – Diluted (Note 13)	\$	3.23 \$	1.79

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31 (\$000)	2008	2007
Net Earnings for the Period	\$ 55,426 \$	30,350
Other comprehensive income, net of income tax Unrealized (loss) gain on investments (net of income taxes of \$(272), (2007 - \$252)) Gains and losses on derivatives designated as cash flow hedges transferred to net earnings (net of income taxes of (\$334))	(1,611) –	1,465 (814)
Other Comprehensive Income (Loss)	(1,611)	651
Comprehensive Income	\$ 53,815 \$	31,001
Comprehensive Income Per Share – Basic (Note 13)	\$ 3.15 \$	1.83
Comprehensive Income Per Share – Diluted (Note 13)	\$ 3.14 \$	1.83

CONSOLIDATED STATEMENTS OF CASH FLOW

Operating Activities \$ 55,426 \$ 30,350 Net earnings for the year Items not affecting cash \$ 30,385 30,385 (Gain) loss on risk management contracts - non-cash (3,085) 3,085 Stock-based compensation 1,207 1,133 Depletion, depreciation and accretion 14,749 13,597 Future income taxes 2,151 2,572 Change in non-cash working capital 3,085 3,085 Accounts receivable 2,642 (1,082) Crude oil inventory (40) 51 Prepaid expenses (360) (262) Accounts payable and accrued liabilities (57) (269) Asset retirement obligations settled (30,63) (820) Asset retirement obligations settled (30,63) (820) Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 93 Unit distributions (46,384) (44,974) Dividends (7,938) - Property and equipment expenditures	For the Years Ended December 31 (\$000)		2008		2007
Net earnings for the year Items not affecting cash Items not cash working capital Items non-cash working non-cash n	Operating Activities		2000	_	2007
Items not affecting cash (Gain) loso nr isk management contracts - non-cash (Gain) loso nr isk management		¢	EE 40/	c	20.250
(Gain) loss on risk management contracts - non-cash 3,085 Stock-based compensation 1,207 1,133 Depletion, depreciation and accretion 14,749 13,597 Future income taxes 2,151 2,572 Change in non-cash working capital 70,448 53,815 Accounts receivable 2,642 (1,082) Crude oil inventory (40) 51 Prepaid expenses (360) (262) Accounts payable and accrued liabilities (57) (269) Asset retirement obligations settled (3,063) (820) Asset retirement obligations settled (3,063) (820) Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 93 Unit distributions (46,384) (44,744) Dividends (7,938) - Investing Activities (19,689) (31,936) Investing Activities (11,257) - Property and equipment expenditures (30,060) (19,300)<		Þ	33,420	Þ	30,350
Stock-based compensation 1,207 1,133 Dry hole costs 1,4749 13,597 Pepletion, depreciation and accretion 14,749 13,597 Future income taxes 2,151 2,572 Change in non-cash working capital 2,642 (1,082) Accounts receivable 2,642 (1,082) Crude oil inventory (40) 51 Prepaid expenses (360) (262) Accounts payable and accrued liabilities (57) (269) Asset retirement obligations settled (3,063) (820) Asset retirement obligations settled (3,063) (820) Increase in debt 20,68 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,974) Dividends (79,88) - Investing Activities (13,816) - Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) -			/3 095/		2 005
Dry hole costs 3,078 Depletion, depreciation and accretion 114,749 13,597 Future income taxes 2,151 2,572 70,448 53,815 Change in non-cash working capital 2,642 (1,082) Accounts receivable 2,642 (1,082) Crude oil inventory (40) 51 Prepaid expenses (360) (262) Accounts payable and accrued liabilities (507) (269) Asset retirement obligations settled (878) (2,382) Asset retirement obligations settled (878) (2,382) Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,794) Dividends (7,938) - Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 2	Stock-based compensation				
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Future income taxes 2,151 2,572 Change in non-cash working capital 70,448 53,815 Accounts receivable 2,642 (1,082) Crude oil inventory (40) 51 Prepaid expenses (360) (262) Accounts payable and accrued liabilities (57) (269) Asset retirement obligations settled (3,063) (820) Bost of the comment of th			14 749		
Change in non-cash working capital 70,448 53,815 Accounts receivable 2,642 (1,082) Crude oil inventory (40) 51 Prepaid expenses (360) (262) Accounts payable and accrued liabilities (57) (269) Asset retirement obligations settled (3,063) (820) Asset retirement obligations settled (878) (2,382) Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,974) Dividends (7,938) - Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) - Restricted term deposit 20 - Restricted term deposit 20 - Change in non-cash working capital 2 - Accounts receivable 5,272 (1,188) Accounts payable and accrued liabilities 5,272 (1,188)					
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Crude oil inventory (40) 51 Prepaid expenses (360) (262) Accounts payable and accrued liabilities (57) (269) Asset retirement obligations settled (30,63) (820) Rest retirement obligations settled (878) (2,382) 69,570 51,433 Financing Activities 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 93 Unit distributions (46,384) (44,974) Dividends (7,938) - Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) - Reorganization (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 20 - Accounts receivable - 993 Accounts receivable - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272	Change in non-cash working capital				
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Accounts payable and accrued liabilities (57) (269) Asset retirement obligations settled (3,063) (820) (878) (2,382) 69,570 51,433 Financing Activities Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,974) Dividends 7,935 993 Investing Activities (19,689) (31,938) Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 20 - Change in non-cash working capital - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year </td <td></td> <td></td> <td>(40)</td> <td></td> <td>51</td>			(40)		51
Asset retirement obligations settled (3,063) (820) (878) (2,382) (69,570) 51,433 Financing Activities 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,774) Dividends (7,938) - Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) - Restricted term deposit 20 - Change in non-cash working capital 20 - Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, beginning of year - - Cash Interest Paid \$ 2,740 \$ 3,088			(360)		(262)
Restricted term deposit Restricted term					(269)
Financing Activities Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,774) Dividends (7,7938) - Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 20 - Change in non-cash working capital - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, beginning of year - - Cash Interest Paid \$ 2,740 \$ 3,028	Asset retirement obligations settled		(3,063)		(820)
Financing Activities 20,698 12,043 Due to related party 6,000 — Stock option proceeds 7,935 993 Unit distributions (46,384) (44,974) Dividends (7,938) — Investing Activities (19,689) (31,938) Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) — Reorganization (Note 4) (11,257) — Restricted term deposit 20 — Change in non-cash working capital — 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow — — Cash, beginning of year — — Cash, peginning of year — — Cash Interest Paid \$ 2,740 \$ 3,028			(878)		(2,382)
Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,974) Dividends (7,938) - Investing Activities (19,689) (31,938) Investing Activities (30,060) (19,300) Acquisition (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 20 - Change in non-cash working capital - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028			69,570		51,433
Increase in debt 20,698 12,043 Due to related party 6,000 - Stock option proceeds 7,935 993 Unit distributions (46,384) (44,974) Dividends (7,938) - Investing Activities (19,689) (31,938) Investing Activities (30,060) (19,300) Acquisition (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 20 - Change in non-cash working capital - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028	Financing Activities				
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Stock option proceeds 7,935 993 Unit distributions (46,384) (44,974) Dividends (7,938) - Investing Activities (19,689) (31,938) Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 20 - Change in non-cash working capital - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028	Due to related party		6,000		_
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Investing Activities (31,938) Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) — Reorganization (Note 4) (11,257) — Restricted term deposit 20 — Change in non-cash working capital — 993 Accounts receivable — 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow — — Cash, beginning of year — — Cash, End of Year \$ — — Cash Interest Paid \$ 2,740 \$ 3,028	Unit distributions		(46,384)		(44,974)
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Property and equipment expenditures (30,060) (19,300) Acquisition (Note 5) (13,816) — Reorganization (Note 4) (11,257) — Restricted term deposit 20 — Change in non-cash working capital — 993 Accounts receivable — 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow — — Cash, beginning of year — — Cash, End of Year \$ — — Cash Interest Paid \$ 3,028			(19,689)		(31,938)
Acquisition (Note 5) (13,816) - Reorganization (Note 4) (11,257) - Restricted term deposit 20 - Change in non-cash working capital - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028					
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Restricted term deposit 20 - Change in non-cash working capital - 993 Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - Cash Interest Paid \$ 2,740 \$					_
Change in non-cash working capital Accounts receivable - 993 Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028					_
Accounts receivable Accounts payable and accrued liabilities - 993 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028			20		
Accounts payable and accrued liabilities 5,272 (1,188) Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028					000
Net cash inflow - - Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028			F 070		
Net cash inflow - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -	Accounts payable and accrued liabilities				
Cash, beginning of year - - Cash, End of Year \$ - - Cash Interest Paid \$ 2,740 \$ 3,028	Not each inflaw		(47,001)		(17,473)
Cash, End of Year \$ - \$ - Cash Interest Paid \$ 2,740 \$ 3,028			-		and the
Cash Interest Paid \$ 2,740 \$ 3,028		\$		\$	_
Cash interest raid		\$	2.740	\$	3.028
	Cash Taxes Paid				292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

1. CHANGE OF ORGANIZATION

On November 12, 2008, Bonterra Energy Income Trust (the "Trust") converted to Bonterra Oil & Gas Ltd. (the "Company") through a reverse takeover by the Trust of SRX Post Holdings Inc. (SRX). In conjunction with the reorganization, the Trust acquired all the issued and outstanding shares of Silverwing Energy Inc. (Silverwing). Concurrently, all of the Company's subsidiaries, including Silverwing were amalgamated into Bonterra Energy Corp.

Prior to the Arrangement on November 12, 2008, the consolidated financial statements included the accounts of the Trust and its subsidiaries. After giving effect to the Arrangement, the consolidated financial statements have been prepared on a continuity of interest basis, which recognizes Bonterra Oil & Gas Ltd. as the successor entity to the Trust. The continuity of interest basis requires that the 2007 comparative consolidated financial statement figures are those previously presented by the Trust. The continuity of interest basis requires that the 2007 comparative consolidated financial statement figures are those previously presented by the Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) as described below.

Consolidation

These consolidated financial statements include the accounts of the "Company", the Trust (wholly owned by the Company) and its wholly owned subsidiary Bonterra Energy Corp. (Bonterra). Inter-company transactions and balances are eliminated upon consolidation.

Measurement Uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the balance sheets as well as the reported amounts of revenues, expenses, and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion, depreciation and accretion costs and amounts used for ceiling test calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Stock-based compensation is based upon expected volatility and option life estimates. Asset retirement obligations are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgements in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

Revenue Recognition

Revenues associated with sales of petroleum and natural gas are recorded when title passes to the customer.

Joint Interest Operations

Significant portions of the Company's oil and gas operations are conducted jointly with other parties and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Inventories

Inventories consist of crude oil. Crude oil stored in the Company's tanks are valued on a first in first out basis at the lower of cost or net realizable value. Inventory cost for crude oil is determined based on combined average per barrel operating costs, royalties and depletion and depreciation for the year and net realizable value is determined based on sales price in the month preceding year end.

Investments

Investments are carried at fair value. Fair value is determined by multiplying the year end trading price of the investments by the number of common shares held as at period end.

Property and Equipment

Petroleum and Natural Gas Properties and Related Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of exploratory wells are initially capitalized pending determination of proved reserves. Costs of wells which are assigned proved reserves remain capitalized, while costs of unsuccessful wells are charged to earnings. All other exploration costs including geological and geophysical costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Producing properties are assessed annually or more frequently as economic events dictate, for potential impairment. Impairment is assessed by comparing the estimated net undiscounted future cash flows to the carrying value of the asset. If required, the impairment recorded is the amount by which the carrying value of the asset exceeds its fair value.

Costs related to undeveloped properties are excluded from the depletion base until it is determined whether or not proved reserves exist or if impairment of such costs has occurred. These properties are assessed at least annually to determine whether impairment has occurred.

Depreciation and depletion of capitalized costs of oil and gas producing properties are calculated using the unit of production method. Development and exploration drilling and equipment costs are depleted over the remaining proved developed reserves. Depreciation of other plant and equipment is provided on the straight line method. Straight line depreciation is based on the estimated service lives of the related assets which is estimated to be ten years.

Furniture, Fixtures and Office Equipment

These assets are recorded at cost and depreciated over a three to ten year period representing their estimated useful lives.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax basis of assets and liabilities, using substantively enacted income tax rates. The effect on future tax assets and liabilities of a change in tax rates is recognized in net earnings in the period in which the change occurs. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

Asset Retirement Obligations

The Company recognizes an Asset Retirement Obligation (ARO) in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes, if any, will be applied prospectively. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the obligations are charged against the ARO to the extent of the liability recorded.

Stock-Based Compensation

The Company accounts for stock based compensation using the fair-value method of accounting for stock options granted to directors, officers, employees and other service providers using the Black-Scholes option pricing model. Stock-based compensation expense is recorded over the vesting period with a corresponding amount reflected in contributed surplus. Stock-based compensation expense is calculated as the estimated fair value of the options at the time of grant, amortized over their vesting period. When stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

All risk management contracts are recorded in the balance sheet at fair value unless they qualify for the normal sale and normal purchase exemption. All changes in their fair value are recorded in net earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income until the underlying hedged transaction is recognized in net earnings. Any hedge ineffectiveness is immediately recognized in net earnings. The Company has elected not to use cash flow hedge accounting on its risk management contracts with financial counterparties resulting in all changes in fair value being recorded in net earnings.

Cash and restricted cash are classified as held-for-trading and are measured at fair value which equals the carrying value and any gains or losses are recognized in earnings in the period they occur. Accounts receivable are classified as loans and receivables which are measured at amortized costs. Investments in related party are classified as available-for-sale which are measured at fair value and any gains or losses are recognized in other comprehensive income in the period they occur. Accounts payable and accrued liabilities and bank debt are classified as other financial liabilities, which are measured at amortized cost

Risk Management Contracts

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. For transactions where hedge accounting is not applied, the Company accounts for such instruments using the fair value method by initially recording an asset or liability, and recognizing changes in the fair value of the instruments in earnings as unrealized gains or losses on risk management contracts. Fair values of financial instruments are determined from third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in earnings in the period they occur.

The Company may elect to use hedge accounting when there is a high degree of correlation between the price movements in the financial instruments and the items designated as being hedged and has documented the relationship between the instruments and the hedged item as well as its risk management objective and strategy for undertaking hedge transactions. During the year ended December 31, 2008, the Company did not designate any of its financial instruments as hedges. There are no risk management contracts outstanding as at December 31, 2008.

Basic and Diluted per Share (formerly per Unit) Calculations

Basic earnings per share are computed by dividing earnings by the weighted average number of shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options to purchase shares were exercised. The treasury stock method is used to determine the dilutive effect of common share options, whereby proceeds from the exercise of common share options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

3. NEW ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants (CICA) Section 1535, "Capital Disclosures" which establishes standards for disclosing information about the Company's capital and how it is managed. It requires disclosures of the Company's objectives, policies and processes for managing capital, the quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The only effect of adopting this standard is disclosures about the Company's capital and how it is managed (see Note 16).

Financial Instruments Disclosures and Presentation

Effective January 1, 2008, the Company prospectively adopted Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation." These new accounting standards replaced Section 3861, "Financial Instruments – Disclosure and Presentation." Section 3862 requires additional information regarding the significance of financial instruments for the entity's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the entity is exposed. The additional disclosures required under these standards are included in Note 16.

Recent Accounting Pronouncements

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. The Company adopted these standards for its fiscal year beginning January 1, 2009 with no impact on its consolidated financial statements.

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company plans to adopt this standard prospectively effective January 1, 2009 and does not expect the adoption of this statement to have a material impact on the Company's results of operations or financial position.

In January 2009, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company plans to adopt these standards effective January 1, 2009 and does not expect the adoption will have a material impact on the results of operations or financial position.

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011. The Company has performed an initial scoping process in order to ensure successful implementation within the required timeframe. The impact on the Company's consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

4. REORGANIZATION

As part of the reorganization of the Trust, SRX acquired all the issued and outstanding trust units of Bonterra Energy Income Trust on a basis of one Trust Unit for one Common Share of SRX. Immediately preceding the reorganization, SRX was in receivership. Prior to the conversion, the Trust advanced \$11,257,000 to SRX for settlement of claims pursuant to the CCAA proceedings. Upon completion of the CCAA procedures, SRX was owed \$2,224,000 in outstanding tax and legal claims that will be used by the CCAA Monitor to settle secured creditor claims. This amount has been recorded as an outstanding account receivable by the Company.

In addition, SRX paid an advance of \$1,800,000 to the CCAA Monitor for costs and payment of the unsecured creditors. This amount has been recorded as a prepaid expense in the accounts of the Company.

Included in accounts payable is \$4,024,000 to account for the amount due to the secured and unsecured creditors.

Of the tax claims, \$66,000 had been received and repaid to the Monitor by December 31, 2008. In addition, \$99,000 of expense claims had been paid by the Monitor and deducted from the advance.

5. BUSINESS COMBINATION

On November 12, 2008, the Company acquired all the common shares of Silverwing for cash consideration of \$13,816,000 (including acquisition costs of \$334,000) plus the issuance of 7,745 common shares at a value of \$25.85 per common share plus the assumption of \$14,979,000 of negative working capital. The results of Silverwing's operations have been included in the consolidated financial statements since that date. The acquisition was funded through the Company's new bank facility (see Note 10).

The acquisition was accounted for using the purchase method and the purchase price was allocated to the fair value of the assets acquired and the liabilities assumed as follows:

Cost	of	acqı	uisit	tion	(000's)

Cash paid	\$ 13,482
Value of common stock	200
Acquisition costs	334
	\$ 14,016
Allocation of purchase price:	
Restricted cash	\$ 1,252
Future income tax benefit	18,325
Property and equipment	15,347
Working capital deficiency	(14,979)
Asset retirement obligations	(5,929)
	\$ 14,016

6. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2007 – 689,682) common shares in Comaplex Minerals Corp (Comaplex), a company with common directors and management with the Company and its subsidiaries. The investment is recorded at fair market value. The common shares trade on the Toronto Stock Exchange under the symbol CMF. The investment represents less than a one and a half percent ownership in the outstanding shares of Comaplex.

7. RESTRICTED CASH

An escrow account was held by Silverwing prior to its acquisition by the Company. The escrow account was created to support eligible expenditures related to a farm-in agreement. The Company may access the funds upon completion and tie-in or abandonment and reclamation of 20 wells. The funds are administered by the farmors' legal counsel. The funds in the escrow account are invested in interest bearing term deposits.

8. PROPERTY AND EQUIPMENT

	2008			2007		
(\$000)	Cost	Accumulated Depletion and Depreciation	I	Cost	D	Accumulated epletion and Depreciation
Undeveloped land Petroleum and natural gas properties	\$ 2,295	\$ -	\$	316	\$	
and related equipment	229,136	74,844		185,947		61,105
Furniture, equipment and other	1,254	848		1,025		700
	\$ 232,685	\$ 75,692	\$	187,288	\$	61,805

9. DUE TO RELATED PARTY

As of December 31, 2008, the Company's CEO and major shareholder has loaned the Company \$6,000,000. The loan is unsecured, bears interest at Canadian chartered bank prime less one half of a percent and has no set repayment terms. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility.

Interest paid on this loan during 2008 was \$7,000.

Please refer to note 15 for additional related party transactions.

10. BANK DEBT

Due to the corporate reorganization and acquisition of Silverwing, the Company amended its bank facility to consist of an \$80,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated demand credit facility (December 31, 2007 - \$69,900,000) (non-syndicated demand facility). Amounts drawn under these facilities at December 31, 2008 were \$93,235,000 (December 31, 2007 - \$57,422,000). The interest rates on the outstanding debt as of December 31, 2008 were 4.35 percent and 3.49 percent on the Company's Canadian prime rate loan (short-term debt) and Bankers' Acceptances (long-term debt), respectively. The terms of the syndicated revolving credit facility provide that the loan is revolving to May 30, 2010 and is subject to annual review. The revolving credit facility has no fixed payment requirements. The terms of the non-syndicated demand credit facility provide that the loan is due on demand and is subject to annual review and has no fixed repayment terms.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling \$525,000 were issued at December 31, 2008 (December 31, 2007 - \$355,000). Of the letters of credit, \$20,000 is secured by a restricted term deposit. Security for the credit facilities consists of various fixed and floating demand debentures totaling \$200,000,000 over all of the Company's assets, and a general security agreement with first ranking over all personal and real property.

The interest rate on the credit facilities is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V	Level VI
Consolidated Total Funded Debt (1) to Consolidated Cash flow Ratio	Below 0.50:1	Over 0.5:1 to 1.0:1			Over 2.0:1 to 2.5:1	Over 2.5:1
Canadian Prime Rate Plus (2) Bankers' Acceptances Rate Plus (2)	50 150	75 175	85 185	100 200	125 225	150 250

⁽¹⁾ Consolidated total funded debt excludes related party amounts but includes working capital.

Numbers in table represent basis points.

Consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the third month following the end of each fiscal quarter, except for the end of a fiscal year in respect of which the adjustment shall be made effective as of the first day of the fifth month following the end of such fiscal year, with each such adjustment to be effective until the next such adjustment:

The following is a list of the material covenants:

- The Company as of December 31, 2008 is required to not exceed \$100,000,000 in consolidated debt (includes negative working capital but excludes debt to related parties).
- Dividends paid in any quarter shall not exceed 80 percent of the average previous four quarters cash flow as defined under GAAP.

11. INCOME TAXES

The Company has recorded a future income tax asset related to assets and liabilities and related tax amounts:

(\$000)	2008	2007
Future tax liability related to investments:	\$ (212)	\$ (448)
Future tax liability related to property and equipment:	(7,097)	(14,828)
Future tax asset related to asset retirement obiligations:	4,593	3,759
Future tax asset related to finance costs:	\$ 1,134	\$ 79
Future tax asset related to corporate tax losses and SR&ED claims	86,998	3,843
Future tax asset (Liability) – Long-term	\$ 85,416	\$ (7,595)
Current portion of future income tax asset related		
to corporate tax losses and SR&ED claims:	\$ 2,669	\$ _
Future income tax asset related to current portion of derivative liability	-	913
Future Tax Asset - Current	\$ 2,669	\$ 913

As a result of the reorganization the Company recorded a deferred credit of \$71,303,000 relating to the difference between the future income tax asset generated on the reorganization and the amount of the cash payment made to SRX immediately before the reorganization. This credit is being amortized (2008 - \$4,240,000) on the same basis as the related future income tax asset (2008 - \$4,909,000).

A reconciliation of the deferred credit is as follows:

Amount recorded on reorganization Amortized in current year	\$ 71,303,0 (4,240,0	
Balance as of December 31, 2008	\$ 67,063,0)00
Current portion Long-term portion	\$ 2,305,0 64,758,0	
	\$ 67,063,0	000

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

(\$000)	2008	2007
Earnings before income taxes	\$ 58,014	\$ 33,434
Combined federal and provincial income tax rates	29.62%	32.27%
Income tax provision calculated using statutory tax rates	17,184	10,789
Increase (decrease) in taxes resulting from:		
Saskatchewan resource surcharge	437	512
Stock-based compensation	357	366
Change in effective tax rate	(4,739)	4,076
Trust income allocated to Unitholders prior to conversion	(10,291)	(13,176)
Others	(360)	517
Income tax expense	\$ 2,588	\$ 3,084

The Company and its subsidiaries have the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of	
(\$000)	Utilization %	Amount
Undepreciated capital costs	20-100 \$	23,696
Eligible capital expenditures	7	1,870
Share issue costs	20	4,581
Canadian oil and gas property expenditures	10	25,072
Canadian development expenditures	30	50,743
Canadian exploration expenditures	100	10,530
SR&ED expenditures	100	80,357
Income tax losses carried forward (1)	100	271,029
	\$	467,878

⁽¹⁾ Income tax losses carried forward expire in the following years; 2014 - \$1,069,000, 2025 - \$3,179,000, 2026 - \$109,244,000, 2027 - \$116,787,000, 2028 - \$40,750,000.

The Company has \$27,670,000 of investment tax credits (ITC) that expire in the following years; 2009 - \$3,469,000, 2010 -\$3,059,000, 2011 - \$4,667,000, 2012 - \$3,909,000, 2013 - \$3,155,000, 2014 - \$1,995,000, 2015 - \$2,257,000, 2016 - \$2,405,000, 2017 - \$2,009,000, 2018 - \$745,000.

The amount and timing of reversals of temporary differences will also depend on the Company's future operating results, acquisitions and dispositions of assets and liabilities, and distrubution policy. A significant change in any of the preceding assumptions could materially affect the Company's estimate of the future income tax asset.

12. ASSET RETIREMENT OBLIGATIONS

At December 31, 2008, the estimated total undiscounted amount required to settle the asset retirement obligations was \$58,903,000 (2007 - \$54,622,000). Costs for asset retirement have been calculated assuming a two percent inflation rate. These obligations will be settled based on the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent (2007 – five percent).

Changes to asset retirement obligations were as follows:

(\$000)	2008	2007
Asset retirement obligations, January 1	\$ 14,904	\$ 14,819
Adjustment to asset retirement obligations	(217)	(399)
Adjustment related to asset additions (net of disposals)	5,929	563
Liabilities settled during the year	(3,063)	(820)
Accretion	785	741
Asset retirement obligations, December 31	\$ 18,338	\$ 14,904

13. SHAREHOLDERS' EQUITY

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

(\$000)	2008	8	2007		
Issued	Number	Amount	Number	Amount	
Common Shares Balance, beginning of year Issued on reorganization to a corporation	- \$ 17,257,603	- 99,530	- \$ -	_ 	
Balance, end of year	17,257,603 \$	99,530	- \$	_	

(\$000)	2008			2007
Issued	Number	Amount	Number	Amount
Trust Units Balance, beginning of year Transfer of contributed surplus to unit capital Issued pursuant to Trust unit option plan Issued on acquisition of Silverwing Cancelled on conversion to a corporation	16,928,158 \$ - 321,700 7,745 (17,257,603)	90,590 805 7,935 200 (99,530)	16,874,658 = 53,500 = -	\$ 89,488 109 993 - -
Balance, end of year	- \$	_	16,928,158	\$ 90,590

The Company is authorized to issue an unlimited number of Class "A" redeemable Preferred Shares and an unlimited number of Class "B" Preferred Shares. There are currently no outstanding Class "A" redeemable preferred shares or Class "B" preferred shares.

The number of common shares (formerly trust units) used to calculate diluted net earnings per share (formerly per unit) for the year ended December 31, 2008 of 17,119,517 shares (2007 – 16,942,036 Units) included the basic weighted average number of common shares outstanding of 17,075,647 shares (2007 – 16,908,266 Units) plus 43,870 shares (2007 – 33,770 Units) related to the dilutive effect of common share options.

A summary of the changes of the Company's contributed surplus is presented below:

Contributed surplus (\$000)	20	08	2007
Balance, beginning of year Stock-based compensation expensed (non-cash) Stock-based options exercised (non-cash)	1,2	40 \$ 07 05)	1,116 1,133 (109)
Balance, end of year	\$ 2,5	42 \$	2,140
The deficit balance is composed of the following items: (\$000)	20	08	2007
Accumulated earnings Accumulated cash dividends and distributions	\$ 208,1 (254,8	82 \$ 97)	152,756 (204,299)
Deficit	\$ (46,7	15) \$	(51,543)

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,725,760 common shares (2007 – 1,692,800 Trust Units). The exercise price of each option granted equals the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of December 31, 2008 and changes during the year is presented below:

	2008		
	Options	Weighted- Average Exercise Price	
Outstanding at beginning of year	Options –	\$ -	
Options granted	1,390,500	20.50	
Outstanding at end of year	1,390,500	\$ 20.50	
Options exercisable at end of year		\$ -	

The following table summarizes information about stock options outstanding at December 31, 2008:

		Options Outstanding			Options	Exercisable
Range of	Number	Weighted-Average			Number	
Exercise	Oustanding	Remaining	Weighted-	-Average	Exercisable	Weighted-Average
Prices	At 12/31/08	Contractual Life	Exerc	cise Price	At 12/31/08	Exercise Price
\$20.50	1,390,500	3.9 years	\$	20.50	_	\$ -

A summary of the former unit option plan as of December 31, 2008 and 2007, and changes during the years is presented below:

	2008		2007		
	Options Ex	Weighted- Average ercise Price	Options	Weighted- Average Exercise Price	
Outstanding at beginning of year Options granted Options exercised Options cancelled	1,177,000 \$ 29,000 (321,700) (884,300)	27.59 39.09 24.66 29.03	721,500 553,000 (53,500) (44,000)	\$ 26.55 28.11 18.56 27.92	
Outstanding at end of year	- \$	_	1,177,000	\$ 27.59	
Options exercisable at end of year	- \$	_	530,000	\$ 26.63	

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Company granted 1,390,500 stock options with an estimated fair value of \$1,548,000 (\$1.11 per option) using the Black-Scholes option pricing model with the following key assumptions:

		2008	2007
Weighted-average risk free interest rate	(%)	2.2	4.7
Expected life (years)		3.5	2.3
Weighted-average volatility (%)		31.3	27.2
Dividend yield 2008 and 2007	based on the percentage of dividends or distrik	outions paid dur	ing the year

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

(\$000)	January 1, 2008	Other Comprehensive Income (Loss)	December 31, 2008
Unrealized gains (losses) on available for sale financial assets	\$ 3,031	\$ (1,611)	\$ 1,420
(\$000)	January 1, 2007	Other Comprehensive Income (Loss)	December 31, 2007
Unrealized gains on available for sale financial assets Unrealized gains and losses on derivatives designated as cash flow hedges	\$ 1,566	\$ 1,465 (814)	\$ 3,031
designated as cash now nedges	\$ 2,380	\$ 651	\$ 3,031

15. RELATED PARTY TRANSACTIONS

The Company received a management fee from Comaplex of \$330,000 (2007 - \$300,000) for management services and office administration. This fee has been included as a recovery in general and administrative expenses and represents the fair value of the services rendered.

In order to facilitate the acquisition of Silverwing, the Company borrowed on a short-term basis \$20,000,000 from Comaplex to allow time to finalize documentation for its new bank line of credit. The funds were repaid on November 21, 2008. Total interest paid on the loan was \$21,000.

As at December 31, 2008, the Company had an account receivable from Comaplex of \$56,000 (December 31, 2007 - \$63,000).

The Company received a management fee from Pine Cliff Energy Ltd., a company with common directors and management with the Company and its subsidiaries, of \$238,000 (2007 - \$216,000) for management services and office administration. This fee has been included in general and administrative expenses as a recovery and represents the fair value of the services rendered.

As at December 31, 2008 the Company had an account receivable from Pine Cliff of \$1,000 (December 31, 2007 - \$4,000).

16. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

The Company undertakes transactions in a range of financial instruments including:

- Receivables
- Payables
- Common share investments
- Bank loans
- Derivatives

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk).

The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on the Company's financial performance. Financial risk management is carried out by senior management under the direction of the Directors of the Company.

The Company enters into various risk management contracts in accordance with Board approval to manage the Company's exposure to commodity price fluctuations. Currently no risk management agreements are in place in respect of interest rate risk. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into to manage the risks relating to commodity prices from its business activities.

Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends, the percentage of return of capital or issue new shares.

The Company monitors capital on the basis of the ratio of debt to cash flow. During the year the Company acquired Silverwing, a public oil and gas producer for cash consideration including negative working capital of \$28,795,000. In addition, the Trust underwent a reorganization resulting in a cash outlay of \$11,257,000 plus reorganization costs of \$2,121,000. The Company has also experienced a decrease in cash flow due to the rather significant drop in commodity prices during the final four months of 2008.

The following section (a) of this note provides a summary of the Company's underlying economic positions as represented by the carrying values, fair values and contractual face values of the Company's financial assets and financial liabilities.

The Company's debt to cash flow from operations is also provided.

The following section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

The following section (c) provides details of the Company's risk management contracts that are used for financial risk management.

a) Financial assets, financial liabilities and debt ratio

The carrying amounts, fair value and face values of the Company's financial assets and liabilities are shown in Table 1.

Table 1

	As at December 31, 2008		
(\$000)	Carrying Value	Fair Value	Face Value
Financial assets			
Restricted term deposit	20	20	20
Accounts receivable	11,753	11,753	11,838
Investment in related party	2,131	2,131	N/A
Financial liabilities			
Accounts payable and			
accrued liabilities	23,888	23,888	23,888
Due to related party	6,000	6,000	6,000
Short-term debt	13,325	13,325	13,325
Long-term debt	79,910	79,910	79,910

The net debt and cash flow from operations figures are presented in Table 2.

Table 2

(\$000)	December 31, 2008
Short-term debt	13,325
Long-term debt	79,910
Due to related party	6,000
Accounts payable and accrued liabilities	23,888
Current assets (1)	(18,971)
Net Debt	104,152
Cash flow from operations (2)	69,570
Net debt to cash flow from operations	1.50

⁽¹⁾ Current assets include restricted term deposit, accounts receivable, crude oil inventory, prepaid expenses and investment in related party.

⁽²⁾ Cash flow from operations includes annual net earnings less adjustment for non-cash (gain) loss on risk management contracts, stockbased compensation, depletion, depreciation and accretion, future income taxes, changes in non-cash working capital items and asset retirement obligations settled.

b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Company is exposed are discussed below.

Commodity price risk

The Company's principal operation is the production and sale of crude oil, natural gas and natural gas liquids. Fluctuations in prices of these commodities directly impact the Company's performance and ability to continue with its dividends.

The Company has used various risk management contracts to set price parameters for a portion of its production. Management, in agreement with the Board of Directors, recently decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of commodity prices.

Sensitivity Analysis

Commodity prices have fluctuated significantly over the recent past. The following table updates the cash flow sensitivity for movements in the commodity prices of \$1 U.S. per barrel WTI for crude oil, \$0.10 per MCF AECO for natural gas and \$0.01 fluctuation in exchange rates.

(\$000)	Cash Flow
U.S. \$1.00 per barrel	\$ 870,000
Canadian \$0.10 per MCF	\$ 289,000
Change of Canadian \$0.01/U.S. \$ exchange rate	\$ 593,000

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Company uses. The principal exposure of the Company is on its bank borrowings which have a variable interest rate which gives rise to a cash flow interest rate risk.

The Company's debt consists of an \$80,000,000 revolving operating line, \$20,000,000 demand operating line and \$6,000,000 due to the Company's CEO and major shareholder. The borrowings under these facilities are at bank prime plus or minor various percentages as well as by means of banker acceptances (BA's). The Company manages its exposure to interest rate risk through entering into various term lengths on its BA's but in no circumstances do the terms exceed six months.

Sensitivity analysis

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12-month period. No income tax effect has been calculated as the Company has sufficient tax pools such that it will not be taxable in the near future.

A one percent increase (decrease) in the Canadian prime rate would decrease cash flow by \$992,000 (increase by \$992,000).

Foreign exchange risk

The Company has no foreign operations and currently sells all its product sales in Canadian currency. The Company however is exposed to currency risk in that crude oil is priced in U.S. currency then converted to Canadian currency. The Company currently has no outstanding risk management agreements. Management, in agreement with the Board of Directors, recently decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of foreign exchange fluctuations.

Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. The Company is exposed to credit risk on all financial assets included on the balance sheet. To help mitigate this risk:

The Company only enters into material agreements with credit worthy counterparties. These include major oil and gas companies or major Canadian chartered banks;

- Agreements for product sales are primarily on 30 day renewal terms; and
- Investments are generally only with companies that have common management with the Company.

Of the accounts receivable balance of December 31, 2008 (\$11,753,000) and December 31, 2007 (\$10,575,000) over 82 (2007 – 90) percent relates to product sales with international oil and gas companies, tax receivables from the Canadian Government or risk contract payments from the Company's principal banker.

The Company assesses quarterly, if there has been any impairment of the financial assets of the Company. During the year ended December 31, 2008, there was no impairment provision required on any of the financial assets of the Company due to historical success of collecting receivables. The Company does have a credit risk exposure as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counter parties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days notice if payments are not received.

At December 31, 2008 approximately \$99,000 or 0.8 percent of the Company's total accounts receivable are aged over 120 days and considered past due. The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or net paying when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at December 31, 2008 is \$85,000. There were no accounts written off during the year.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

Liquidity risk

Liquidity risk includes the risk that, as a result of Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will not have sufficient funds to continue with its dividends;
- The Company will be forced to sell assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

To help reduce these risks the Company:

• Maintains a portfolio of high-quality, long reserve life oil and gas assets.

The Company has the following maturity schedule for its financial liabilities:

_	Payments Due By Period				
(\$000)	Recognized on Financial Statements	Less Than One Year	1-3 Years	4-5 Years	
Accounts payable and accrued liabilities Due to related party Short-term bank debt	Yes – Liability Yes – Liability	23,888 6,000 13,325		- - -	
Long-term bank debt Office leases Total	Yes – Liability No	589 43,802	79,910 1,238 81.148	1,080	

c) Risk management contracts

The Company currently has no outstanding risk management contracts:

As of December 31, 2007, the fair value of the outstanding commodity risk management contracts was a net liability of \$3,085,000.

17. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company has no contractual obligations that last more than a year other than its office lease agreements which are as follows:

Contract Obligations

		Less than	1 – 3	4-5
(\$000)	Total	1 year	years	years
Office leases (1)	\$ 2,907 \$	589 \$	1,238 \$	1,080

⁽¹⁾ Includes Silverwing's former office space which is being sublet at a rate that approximates the rates charged to the Company. The funds received on the sublease have not been offset against the contractual liability.

18. SUBSEQUENT EVENTS - DIVIDENDS

Subsequent to December 31, 2008, the Company has declared the following dividends:

Date declared	Record date	\$ per share	Date payable
January 6, 2009	January 15, 2009	\$0.16	January 30, 2009
February 9, 2009	February 18, 2009	\$0.12	February 27, 2009
March 5, 2009	March 16, 2009	\$0.12	March 31, 2009

CORPORATE INFORMATION

BOARD OF DIRECTORS

G.J. Drummond, Nassau, Bahamas G.F. Fink, Calgary, Alberta C.R. Jonsson, Vancouver, British Columbia F. W. Woodward, Calgary, Alberta

OFFICERS

G.F. Fink – Chief Executive Officer R.M. Jarock – President and Chief Operating Officer G.E. Schultz – Vice President, Finance, Chief Financial Officer & Secretary

REGISTRAR & TRANSFER AGENT

Olympia Trust Company, Calgary, Alberta

AUDITORS

Deloitte & Touche LLP, Calgary, Alberta

SOLICITORS

Borden Ladner Gervais LLP, Calgary, Alberta

BANKERS

The Royal Bank of Canada, Calgary, Alberta CIBC, Calgary, Alberta

STOCK LISTING

The Toronto Stock Exchange, Toronto, Ontario Trading symbol: BNE

HEAD OFFICE

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WEB SITE

www.bonterraenergy.com





Bonterra
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